

**Badger Daylighting Ltd.**

**Interim Condensed Consolidated Financial Statements  
(Unaudited)**

For the three and nine months ended September 30, 2018 and 2017

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

(Unaudited - Expressed in thousands of Canadian Dollars)

<b>As at</b>	<b>Notes</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		<b>23,706</b>	46,105
Trade and other receivables	7	<b>157,432</b>	112,032
Prepaid expenses		<b>6,062</b>	4,884
Inventories		<b>6,156</b>	5,348
Income taxes receivable		<b>14,931</b>	225
		<b>208,287</b>	168,594
<b>Non-current Assets</b>			
Income taxes receivable		-	15,225
Property, plant and equipment		<b>345,286</b>	308,050
Intangible assets		<b>10,225</b>	7,858
Goodwill		<b>1,621</b>	1,621
		<b>357,132</b>	332,754
<b>Total Assets</b>		<b>565,419</b>	501,348
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables		<b>49,194</b>	39,312
Income taxes payable		<b>734</b>	-
Share-based plan liability	11	<b>18,761</b>	13,986
Dividends payable		<b>1,670</b>	1,410
		<b>70,359</b>	54,708
<b>Non-current Liabilities</b>			
Long-term debt	9	<b>97,088</b>	94,088
Deferred income tax		<b>42,603</b>	34,058
		<b>139,691</b>	128,146
<b>Shareholders' Equity</b>			
Shareholders' capital	10	<b>82,724</b>	82,724
Contributed surplus		<b>548</b>	548
Accumulated other comprehensive income		<b>25,900</b>	19,127
Retained earnings		<b>246,197</b>	216,095
		<b>355,369</b>	318,494
<b>Total Liabilities and Shareholders' Equity</b>		<b>565,419</b>	501,348

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

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

(Unaudited - Expressed in thousands of Canadian Dollars except per share information)

	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2018	2017	2018	2017
Revenues	4, 8	<b>168,712</b>	140,903	<b>436,833</b>	364,746
Direct costs	4	<b>110,519</b>	95,653	<b>301,743</b>	259,243
<b>Gross profit</b>		<b>58,193</b>	45,250	<b>135,090</b>	105,503
Depreciation of property, plant and equipment		<b>13,138</b>	11,240	<b>36,958</b>	33,515
General and administrative		<b>7,248</b>	6,369	<b>21,241</b>	14,661
Share-based plan		<b>320</b>	797	<b>6,372</b>	381
<b>Operating profit</b>		<b>37,487</b>	26,844	<b>70,519</b>	56,946
Loss on sale of property, plant and equipment		<b>434</b>	94	<b>944</b>	55
Finance cost		<b>1,117</b>	1,692	<b>3,636</b>	4,269
Foreign exchange loss		<b>890</b>	313	<b>252</b>	695
<b>Profit before tax</b>		<b>35,046</b>	24,745	<b>65,687</b>	51,927
Current income tax expense		<b>3,428</b>	8,571	<b>12,926</b>	17,933
Deferred income tax expense (recovery)		<b>5,929</b>	(18)	<b>8,412</b>	(614)
<b>Income tax expense</b>		<b>9,357</b>	8,553	<b>21,338</b>	17,319
<b>Net profit for the period</b>		<b>25,689</b>	16,192	<b>44,349</b>	34,608
<b>Other comprehensive income:</b>					
Foreign exchange (loss) gain on translation of foreign operations		<b>(4,212)</b>	(9,786)	<b>9,773</b>	(18,046)
Unrealized foreign exchange gain (loss) on net investment hedge		<b>1,673</b>	3,727	<b>(3,000)</b>	7,098
<b>Other comprehensive (loss) income</b>		<b>(2,539)</b>	(6,059)	<b>6,773</b>	(10,948)
<b>Total comprehensive income</b>		<b>23,150</b>	10,133	<b>51,122</b>	23,660
<b>Net profit per share</b>					
Basic and diluted	12	<b>0.69</b>	0.44	<b>1.20</b>	0.93

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

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

(Unaudited - Expressed in thousands of Canadian Dollars)

<b>For the nine months ended</b>	<b>Shareholders' capital</b>	<b>Contributed surplus</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Retained earnings</b>	<b>Total equity</b>
As at January 1, 2017	82,724	548	29,937	165,862	279,071
Net profit for the period	-	-	-	34,608	34,608
Other comprehensive (loss) for the period	-	-	(10,948)	-	(10,948)
Dividends	-	-	-	(11,390)	(11,390)
<b>As at September 30, 2017</b>	<b>82,724</b>	<b>548</b>	<b>18,989</b>	<b>189,080</b>	<b>291,341</b>
As at January 1, 2018	82,724	548	19,127	216,095	<b>318,494</b>
Net profit for the period	-	-	-	44,349	<b>44,349</b>
Other comprehensive income for the period	-	-	6,773	-	<b>6,773</b>
Dividends	-	-	-	(14,247)	<b>(14,247)</b>
<b>As at September 30, 2018</b>	<b>82,724</b>	<b>548</b>	<b>25,900</b>	<b>246,197</b>	<b>355,369</b>

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

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

(Unaudited - Expressed in thousands of Canadian Dollars)

	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2018	2017	2018	2017
<b>Operating activities</b>					
Net profit for the period		25,689	16,192	44,349	34,608
Non-cash adjustments to reconcile profit from operations to net cash flows:					
Depreciation of property, plant and equipment		13,138	11,240	36,958	33,515
Deferred income tax expense (recovery)		5,929	(18)	8,412	(614)
Loss on sale of property plant and equipment		434	94	944	55
Accrued interest		1,117	1,109	3,636	3,564
Current income tax expense		3,428	8,571	12,926	17,933
Share-based plan		320	797	6,372	381
Unrealized foreign exchange gain (loss)		114	(34)	(39)	(123)
Cash flow from operating activities before working capital and other adjustments		50,169	37,951	113,558	89,319
Change in non-cash working capital	13	(20,484)	(13,287)	(32,992)	(30,672)
Current income tax paid		(7,648)	(8,041)	(11,783)	(13,424)
Share-based plan paid		(36)	-	(1,597)	(75)
<b>Cash flows from operating activities</b>		<b>22,001</b>	<b>16,623</b>	<b>67,186</b>	<b>45,148</b>
<b>Investing activities</b>					
Purchase of property, plant and equipment		(22,253)	(21,228)	(71,549)	(61,875)
Proceeds from sale of property, plant and equipment		369	141	1,528	815
Acquisition of Operating Partner		-	(99)	(174)	(873)
Expenditures on intangible asset		(1,986)	-	(2,186)	-
Change in non-cash working capital	13	(3,966)	(476)	230	3,232
<b>Cash flows used in investing activities</b>		<b>(27,836)</b>	<b>(21,662)</b>	<b>(72,151)</b>	<b>(58,701)</b>
<b>Financing activities</b>					
Interest paid		(2,440)	(2,349)	(4,821)	(4,868)
Dividends paid		(5,009)	(4,044)	(13,987)	(11,390)
<b>Cash flows used in financing activities</b>		<b>(7,449)</b>	<b>(6,393)</b>	<b>(18,808)</b>	<b>(16,258)</b>
Effect of foreign exchange rate changes on cash		(239)	(386)	1,374	(630)
(Decrease) in cash and cash equivalents		(13,523)	(11,818)	(22,399)	(30,441)
Cash and cash equivalents, beginning of period		37,229	44,252	46,105	62,875
<b>Cash and cash equivalents, end of period</b>		<b>23,706</b>	<b>32,434</b>	<b>23,706</b>	<b>32,434</b>

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 and nine months ended September 30, 2018 and September 30, 2017

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

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### **1 Incorporation and operations**

Badger Daylighting Ltd. and its subsidiaries (together “Badger” or the “Company”) provide non-destructive excavating services to the utility, transportation, industrial, engineering, construction and petroleum industries in Canada and the United States (“U.S.”). Badger is a publicly traded company. The head office of Badger is located at Suite 400, 919-11<sup>th</sup> Avenue SW, Calgary, Alberta T2R 1P3. The registered office of Badger is located at c/o Nerland Lindsey LLP, 400, 350-7<sup>th</sup> Avenue SW, Calgary, Alberta T2P 3N9.

The interim condensed consolidated financial statements of the Company for the period ended September 30, 2018 were authorised for issue in accordance with a resolution of the directors on November 12, 2018.

### **2 Basis of preparation**

#### **Statement of compliance**

These interim condensed consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board. These interim condensed consolidated financial statements are prepared on a basis consistent with Badger Daylighting Ltd.’s consolidated financial statements as at and for the year ended December 31, 2017, except for the effect of the adoption of new accounting standards, amendments and interpretations effective January 1, 2018. Refer to Note 4 for details related to the adjustment of certain prior period comparatives due to the adoption of IFRS 15.

#### **Basis of measurement**

These interim condensed consolidated financial statements have been prepared on a historical cost basis except for share-based compensation transactions measured at fair market value. Historical cost is generally based on the fair value consideration given in exchange for goods and services at the time of the transaction.

#### **Functional and presentation currency**

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

### **3 Significant accounting judgements, estimates, assumptions**

The preparation of these interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the interim condensed consolidated financial statements and reported amounts of revenues, expenses, gains and losses during the reporting period. These judgements, estimates and assumptions are the same as those set out in the annual audited consolidated financial statements for the year ended December 31, 2017. Estimates and judgements are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### **4 Standards adopted and changes in accounting policies**

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are the same as those set out in the annual audited consolidated financial statements for the year ended December 31, 2017 other than those for which the transition is specified by the adoption of a new IFRS standard and included below. These policies have been consistently applied to all periods presented.

# BADGER DAYLIGHTING LTD.

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018 and September 30, 2017

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

### IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for revenue recognition. It replaced IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and related interpretations. The company has adopted IFRS 15 on January 1, 2018 using the full retrospective method, therefore certain prior year comparative figures have been adjusted as discussed below. There was no impact on Badger’s consolidated statement of financial position or net income. The adoption of IFRS 15 did not impact the timing of revenue recognition, however new disclosures were required.

Under IAS 18, the Company was required to assess whether it was principal or agent to a transaction depending on when it had exposure to the significant risks and rewards associated with providing the service. Under IFRS 15, the factors used to make this determination are similar but with an emphasis on the context of the identification of the contract with the customer and control of the underlying services.

Badger’s business model involves the provision of excavating services through two distinct methods: via Badger corporate operations and via operating partners in Canada or franchisees in the United States (“operating partner”).

Following the assessment of the IFRS 15 criteria, the Company has determined that in situations where an operating partner works directly with a customer, they have primary control over the provision of services being provided. In these situations, the Company is acting as an agent on behalf of its operating partner. Beginning on January 1, 2018 such transactions are presented in revenue, net of payments due to the operating partner. Under the previous standard, the Company assessed the basis of recognizing revenue on a gross versus net basis if the Company was exposed to credit and collection risk based on the commercial substance of the transaction.

Additionally, the Company has assessed transactions with subcontractors and other related service providers, commonly referred to as third parties, against the new criteria around control of the service. In Badger’s assessment, it is a principal in transactions where the Company has control in the execution of the underlying services. Transactions with third parties are presented in revenue on a gross basis with any associated costs recognized and presented in direct costs. Under the previous standard, Badger considered the costs as flow through payments, with the Company as agent.

The following tables summarize the IFRS 15 changes for the three and nine month periods ended September 30, 2017 and year ended December 31, 2017:

<b>Three Months Ended September 30, 2017</b>	<b>Revenue</b>	<b>Direct Costs</b>	<b>Gross Profit</b>	<b>Gross Margin</b>
Historical - reported under IAS 18	141,285	96,035	45,250	32.0%
<b>Operating partner adjustments</b>				
Less: Revenue reported under IAS 18 <sup>(1)</sup>	(14,121)		(14,121)	
Less: Payments to operating partners under IAS 18		(8,227)	8,227	
Add: Net revenue under IFRS 15 <sup>(2)</sup>	5,894		5,894	
<b>Third party adjustments</b>				
Less: Revenue reported under IAS 18 <sup>(3)</sup>	(2,156)		(2,156)	
Add: Revenue under IFRS 15 <sup>(4)</sup>	10,001		10,001	
Add: Direct costs under IFRS 15 <sup>(5)</sup>		7,845	(7,845)	
<b>Reported under IFRS 15</b>	<b>140,903</b>	<b>95,653</b>	<b>45,250</b>	<b>32.1%</b>
Net impact of IFRS 15 adoption	(382)	(382)	-	0.1%

# BADGER DAYLIGHTING LTD.

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018 and September 30, 2017

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

<b>Nine Months Ended September 30, 2017</b>	<b>Revenue</b>	<b>Direct Costs</b>	<b>Gross Profit</b>	<b>Gross Margin</b>
Historical - reported under IAS 18	366,447	260,944	105,503	28.8%
<b>Operating partner adjustments</b>				
Less: Revenue reported under IAS 18 <sup>(1)</sup>	(38,655)		(38,655)	
Less: Payments to operating partners under IAS 18		(22,494)	22,494	
Add: Net revenue under IFRS 15 <sup>(2)</sup>	16,161		16,161	
<b>Third party adjustments</b>				
Less: Revenue reported under IAS 18 <sup>(3)</sup>	(4,830)		(4,830)	
Add: Revenue under IFRS 15 <sup>(4)</sup>	25,623		25,623	
Add: Direct costs under IFRS 15 <sup>(5)</sup>		20,793	(20,793)	
<b>Reported under IFRS 15</b>	<b>364,746</b>	<b>259,243</b>	<b>105,503</b>	<b>28.9%</b>
Net impact of IFRS 15 adoption	(1,701)	(1,701)	-	0.1%

<b>Year ended December 31, 2017</b>	<b>Revenue</b>	<b>Direct costs</b>	<b>Gross profit</b>	<b>Gross margin</b>
Historical - Reported under IAS 18	499,236	352,644	146,592	29.4%
<b>Operating partner adjustments</b>				
Less: Revenue reported under IAS 18 <sup>(1)</sup>	(52,620)		(52,620)	
Less: Payments to operating partners under IAS 18 <sup>(6)</sup>		(30,625)	30,625	
Add: Net revenue under IFRS 15 <sup>(2)</sup>	21,995		21,995	
<b>Third party adjustments</b>				
Less: Revenue reported under IAS 18 <sup>(3)</sup>	(7,143)		(7,143)	
Add: Revenue under IFRS 15 <sup>(4)</sup>	35,340		35,340	
Add: Direct costs under IFRS 15 <sup>(5)</sup>		28,197	(28,197)	
<b>Reported under IFRS 15</b>	<b>496,808</b>	<b>350,216</b>	<b>146,592</b>	<b>29.5%</b>
Net impact of IFRS 15 adoption	(2,428)	(2,428)	-	0.1%

(1) Operating partner revenue was reported gross as a component of revenue on the Consolidated Statement of Comprehensive Income under IAS 18.

(2) As a result of the adoption of IFRS 15, revenue from operating partners is recorded net of payments to operating partners as a component of consolidated revenue on the Consolidated Statement of Comprehensive Income.

(3) Revenue from third parties was reported net of direct costs as a component of revenue on the Consolidated Statement of Comprehensive income under IAS 18.

(4) As a result of the adoption of IFRS 15, revenue from third party transactions is recorded gross as a component of revenue on the Consolidated Statement of Comprehensive Income.

(5) As a result of the adoption of IFRS 15, direct costs from third party transactions is recorded gross as a component of direct costs on the Consolidated Statement of Comprehensive Income.

(6) Payments to operating partners were reported gross as a component of direct costs on the Consolidated Statement of Comprehensive Income under IAS 18. Payments to operating partners of \$33.6 million as disclosed in Note 16 of the 2017 audited annual consolidated financial statements included \$30.6 million paid to operating partners, with the remaining balance related to fees paid to independent operators which will continue to be presented gross as a component of direct costs. Independent operators do not have a franchise agreement and the provision of services for independent operators is controlled by Badger Corporate.

# BADGER DAYLIGHTING LTD.

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018 and September 30, 2017

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

### IFRS 15 Post Adoption Comparative Information

For the years ended December 31	IFRS 15 Post Adoption			Historical		
	2017	2016	2015	2017	2016	2015
Revenues	496,808	397,182	386,171	499,236	404,202	404,620
Direct costs	350,216	277,277	264,656	352,644	284,297	283,105
Gross profit	146,592	119,905	121,515	146,592	119,905	121,515
Gross profit margin (%)	29.5%	30.2%	31.5%	29.4%	29.7%	30.0%

### Revenue recognition

Badger's revenue primarily arises from contracts with customers. Revenue is recognized when a customer obtains control over the goods or services at which point performance obligations are satisfied. Badger recognizes revenue from hydrovac and other services and truck placement fees.

For all service revenue, the performance obligation is satisfied as services are provided to the customer. For truck placement fees, the performance obligation is satisfied when the truck is delivered to the operating partner. The above mentioned performance obligations are part of contracts that have an expected duration of less than one year.

The total consideration in the service contracts is allocated to all services based on their stand-alone selling prices. The transaction price for the services Badger provides is agreed upon with the customer at the time the contracts are entered into and do not contain significant financing components.

### IFRS 9 – Financial Instruments

The International Accounting Standards Board issued IFRS 9 – *Financial Instruments* that introduces new requirements for classifying and measuring financial instruments. The standard is effective for fiscal years beginning on or after January 1, 2018. IFRS 9 affects the classification and measurement of financial assets and financial liabilities and the recognition of expected credit losses. The Company adopted IFRS 9 effective January 1, 2018 on a retrospective basis. The prior year comparative information has not been adjusted with respect to the adoption of IFRS 9's classification and measurement requirements as the adoption of IFRS 9 did not result in material changes to the determination of Badger's anticipated credit losses and associated allowance for doubtful accounts.

The classification and measurement of financial instruments under IFRS 9 did not impact Badger's classification of financial instruments as all financial assets and liabilities will continue to be measured at amortized cost. There were no adjustments to the carrying amounts of financial instruments as a result of the measurement classification category changes from IAS 39 to IFRS 9.

Consistent with the requirements of IFRS 9, Badger assesses the lifetime expected credit losses on an ongoing basis and updates its assumptions, if and when required. All hedging relationships designated under IAS 39 at December 31, 2017 met the criteria for hedge accounting under IFRS 9 at January 1, 2018 and are therefore regarded as continuing the hedging relationships.

### Financial assets

Pursuant to IFRS 9, the classification of financial assets is based on the Company's assessment of its business model for holding financial assets. The classification categories are as follows:

- Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through other comprehensive income: assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss: assets that do not meet the criteria for amortized cost or fair value through other comprehensive income.

# **BADGER DAYLIGHTING LTD.**

## **Notes to the Interim Condensed Consolidated Financial Statements**

Three and nine months ended September 30, 2018 and September 30, 2017

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

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Financial assets measured at amortized cost are measured at cost using the effective interest method. The amortized cost is reduced by impairment losses at an amount equal to the lifetime expected credit losses that result from all possible default events over the expected life of the financial instrument. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the consolidated statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

### **Financial liabilities**

The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the statement of comprehensive income.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the statement of comprehensive income.

Financial liabilities are classified as current liabilities if payment is due within one year or less, if not, they are presented as non-current liabilities. Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

## **5 Recent accounting pronouncements**

### **IFRS 16 – Leases**

The International Accounting Standards Board issued IFRS 16 – *Leases*, supersedes the existing standard, IAS 17 – *Leases*. The standard is effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted, but only if the entity is also applying IFRS 15. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees, generally all leases will require an asset and liability to be recognized on the statement of financial position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The Company is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and has the option to either:

- apply IFRS 16 with full retrospective effect; or
- recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

As a practical matter, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Badger intends to adopt the new standard on the effective date and is currently assessing the effect that the new standard will have on its presentation and disclosure requirements, which is expected to be completed during 2018.

## **6 Seasonality of operations**

The Company's sales are typically highest in the second, third and fourth quarters as a result of the seasonal upswing in construction activity, the impact of which typically results in higher activity levels. In the first quarter, construction activity in the majority of Canada and certain regions of the U.S. typically reduces as a result of winter weather conditions. Partially offsetting the impact of the seasonality related to construction activity, is demand for certain oil and gas related activities which are typically strongest in the first quarter and weakest in the second quarter as a result of spring break-up and restrictions related to road access. As the Company continues to grow its U.S. customer base, the impact of seasonality may shift over time. Similarly to sales, the Company's net working capital requirements will typically follow the seasonality of the related sales activity.

## BADGER DAYLIGHTING LTD.

### Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018 and September 30, 2017

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

#### 7 Trade and other receivables

	September 30, 2018	December 31, 2017
Trade receivables	151,621	109,904
Holdback receivables	1,697	1,702
Allowance for doubtful accounts	(1,638)	(1,622)
<b>Total trade receivables</b>	<b>151,680</b>	<b>109,984</b>
Accrued revenue and other receivables	5,752	2,048
<b>Trade and other receivables</b>	<b>157,432</b>	<b>112,032</b>

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.

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 collectible.

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

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

	Total	0-30 days <sup>(1)</sup>	31-60 days	61-90 days	91-120 days	Greater than 120 days
<b>September 30, 2018</b>						
Trade receivables	151,621	76,079	33,550	19,025	8,514	14,453
Holdback receivables	1,697	3	22	129	157	1,386
Allowance for doubtful accounts	(1,638)	(4)	(39)	(52)	(12)	(1,531)
	<b>151,680</b>	<b>76,078</b>	<b>33,533</b>	<b>19,102</b>	<b>8,659</b>	<b>14,308</b>
<b>December 31, 2017</b>						
Trade receivables	109,904	39,209	34,740	16,865	8,954	10,136
Holdback receivables	1,702	6	27	33	112	1,524
Allowance for doubtful accounts	(1,622)	-	(2)	-	-	(1,620)
	<b>109,984</b>	<b>39,215</b>	<b>34,765</b>	<b>16,898</b>	<b>9,066</b>	<b>10,040</b>

<sup>(1)</sup> Trade receivables in the 0-30 day category includes amounts invoiced from August 31, 2018 to September 30, 2018.

The changes in allowance for doubtful account for the periods ended September 30, 2018 and December 31, 2017 are as follows:

<b>At December 31, 2016</b>	1,492
Additions to the allowance (bad debt expense)	2,951
Accounts written off (reduces allowance for doubtful accounts)	(1,700)
Amounts recovered that were previously allowed for (reduces bad debt expense)	(1,058)
Exchange differences	(63)
<b>At December 31, 2017</b>	<b>1,622</b>
Additions to the allowance (bad debt expense)	<b>5,319</b>
Accounts written off (reduces allowance for doubtful accounts)	<b>(4,228)</b>
Amounts recovered that were previously allowed for (reduces bad debt expense)	<b>(1,101)</b>
Exchange differences	<b>26</b>
<b>At September 30, 2018</b>	<b>1,638</b>

# BADGER DAYLIGHTING LTD.

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### 8 Revenue

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Hydrovac revenue – corporate	135,287	115,648	351,134	297,600
Hydrovac revenue – operating partners	5,967	5,622	15,517	15,330
<b>Total hydrovac revenue</b>	<b>141,254</b>	<b>121,270</b>	<b>366,651</b>	<b>312,930</b>
Other service revenue – corporate <sup>(1)</sup>	27,055	19,188	68,535	50,397
Other service revenue – operating partners <sup>(1)</sup>	345	210	947	782
<b>Total other service revenue</b>	<b>27,400</b>	<b>19,398</b>	<b>69,482</b>	<b>51,179</b>
Truck placement revenue	58	235	700	637
<b>Total revenue</b>	<b>168,712</b>	<b>140,903</b>	<b>436,833</b>	<b>364,746</b>

<sup>(1)</sup> Other service revenue consists primarily of third party revenue, hydrovac related revenue not included in “Hydrovac revenue” and revenue related to other service lines.

### 9 Long-term debt

	September 30, 2018	December 31, 2017
Senior secured notes	97,088	94,088
Syndicated revolving credit facility	-	-
<b>Long-term debt</b>	<b>97,088</b>	<b>94,088</b>

#### Syndicated revolving credit facility

Badger has established a syndicated revolving credit facility (the “credit facility”) with a syndicate of three lenders. The credit facility, which is \$147.1 million in aggregate Canadian dollars, consists of a \$50.0 million Canadian tranche and a US\$75.0 million (\$97.1 million Canadian dollar equivalent) U.S. denominated tranche, providing Badger with the administrative flexibility to borrow in both Canada and the United States. The credit facility, which is a four year term, matures on August 11, 2021. Badger has the flexibility to expand the credit facility with approval of the syndicate by an additional \$100.0 million.

Badger maintains the credit facility for general liquidity management, general corporate purposes and to finance Badger’s capital expenditure program. The credit facility bears interest, at the Company’s option, at either the bank’s prime rate plus a tiered set of basis points or bankers’ acceptance/LIBOR 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/LIBOR 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 Company’s Funded Debt to Compliance EBITDA ratio. Stand-by fees are expensed as incurred. The credit facility is collateralized by a general security interest over the Company’s assets, property and undertaking, present and future.

At September 30, 2018, the Company had available \$142.8 million (December 31, 2017 - \$140.8 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

As at September 30, 2018, the Company has issued letters of credit of approximately \$4.3 million (December 31, 2017 - \$3.3 million). The outstanding letters of credit, which reduce the amount of available credit under the syndicated credit facility, support Badger’s U.S. insurance program and certain other performance bonds.

Under the terms of the credit facility, the Company must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2018, and as at September 30, 2018, the Company was in compliance with all of these covenants.

# BADGER DAYLIGHTING LTD.

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### 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.

The senior secured notes are collateralized by a general security interest over the Company's assets, property and undertaking, present and future.

Under the terms of the senior secured notes, the Company must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2018, and as at September 30, 2018, the Company was in compliance with all of these covenants.

As at September 30, 2018, the fair value of the senior secured notes was approximately US\$75.5 million (December 31, 2017 – US\$77.2 million).

## 10 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 and December 31, 2017	37,100,681	82,724
Shares issued on redemption of deferred share units	-	-
At September 30, 2018	37,100,681	82,724

## 11 Share-based 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 Company. 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.

The liability for deferred units outstanding as at September 30, 2018 is \$12.5 million (December 31, 2017 - \$9.9 million). The fair value of deferred units exercisable as at September 30, 2018 is \$10.9 million (December 31, 2017 - \$8.7 million). Changes in the number of deferred units under the DSU Plan were as follows:

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	<b>Units</b>
<b>At December 31, 2016</b>	<b>327,037</b>
Granted	71,958
Dividends earned	5,612
Redeemed	(3,288)
Forfeited	-
<b>At December 31, 2017</b>	<b>401,319</b>
Granted	128,274
Dividends earned	6,395
Redeemed	(25,373)
Forfeited	(3,234)
<b>At September 30, 2018</b>	<b>507,381</b>
<b>Exercisable at September 30, 2018</b>	<b>367,337</b>

#### B) Performance Share Unit Plan

The Company also has a Performance Share Unit (“PSU”) Plan for officers of the Company. 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, if any, 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 September 30, 2018 is \$6.3 million (December 31, 2017 - \$4.1 million). The fair value of units exercisable at September 30, 2018 is nil (December 31, 2017 - \$1.5 million). Changes in the number of PSUs under the PSU plan were as follows:

	<b>Units</b>
<b>At December 31, 2016</b>	<b>198,316</b>
Granted	62,310
Redeemed	-
Forfeited	-
<b>At December 31, 2017</b>	<b>260,626</b>
Granted	89,775
Redeemed	(56,043)
Forfeited	-
<b>At September 30, 2018</b>	<b>294,358</b>
<b>Exercisable at September 30, 2018</b>	<b>-</b>

# BADGER DAYLIGHTING LTD.

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018 and September 30, 2017

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

### 12 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 earnings per share for the nine months ended September 30, 2018, was based on the net profit available to common shareholders of \$44.3 million (September 30, 2017 - \$34.6 million), and a weighted average number of common shares outstanding of 37,100,681 (September 30, 2017 - 37,100,681).

	For the three and nine months ended September 30,	
	2018	2017
Issued common shares outstanding, beginning of period	37,100,681	37,100,681
Basic weighted average number of common shares, end of period	37,100,681	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 and nine months ended September 30,	
	2018	2017
Basic weighted average number of common shares	37,100,681	37,100,681
Effect of dilutive deferred share units	-	-
Diluted weighted average number of common shares, end of period	37,100,681	37,100,681

### 13 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 September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
<b>Operating activities</b>				
Source (use) of cash:				
Trade and other receivables	(25,531)	(23,069)	(44,449)	(42,364)
Prepaid expenses	(2,220)	(3,156)	(1,084)	(3,424)
Inventories	(150)	592	(754)	(1,667)
Trade and other payables	7,417	12,346	13,295	16,783
Change in non-cash working capital	(20,484)	(13,287)	(32,992)	(30,672)
<b>Investing activities</b>				
Source (use) of cash:				
Trade and other payables <sup>(1)</sup>	(3,966)	(476)	230	3,232
Change in non-cash working capital	(3,966)	(476)	230	3,232

<sup>(1)</sup> Non-cash working capital changes from trade and other payables are from vendors supplying Badger's manufacturing operations and are included in investing activities as these supplies are additions to Property, plant and equipment.

# BADGER DAYLIGHTING LTD.

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Three and nine months ended September 30, 2018 and September 30, 2017

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

	September 30, 2018	December 31, 2017
Cash and cash equivalents:		
Cash	18,089	35,705
Cash equivalents	5,617	10,400
Total cash and cash equivalents	23,706	46,105

### 14 Segment reporting

The Company has identified three reportable segments consisting of two geographic segments (U.S. and Canada) and a Corporate reportable segment. The U.S. and Canadian operating segments provide non-destructive excavating services. Previously the results of the Corporate segment were included as a component of the Canada operating segment. Separating the Corporate results improves the comparability between the Canadian and U.S. segments. Comparative information has been reclassified to conform to the current presentation. The following is selected information for the periods ended September 30, 2018 and 2017 for these reportable segments.

For the three months ended:	September 30, 2018				September 30, 2017			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Revenues	39,412	129,300	-	168,712	39,521	101,382	-	140,903
Direct costs	27,143	83,376	-	110,519	27,536	68,117	-	95,653
Depreciation of property, plant and equipment	3,726	9,412	-	13,138	3,628	7,612	-	11,240
General and administrative <sup>(1)</sup>	1,334	3,807	2,107	7,248	978	3,375	2,016	6,369
Share-based plan <sup>(2)</sup>	-	-	320	320	-	-	797	797
Finance cost <sup>(3)</sup>	-	-	1,117	1,117	-	-	1,692	1,692
Other <sup>(4)</sup>	1,156	168	-	1,324	278	129	-	407
Profit (loss) before tax	6,053	32,537	(3,544)	35,046	7,101	22,149	(4,505)	24,745

For the nine months ended:	September 30, 2018				September 30, 2017			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Revenues	110,640	326,193	-	436,833	103,763	260,983	-	364,746
Direct costs	80,363	221,380	-	301,743	76,574	182,669	-	259,243
Depreciation of property, plant and equipment	11,098	25,860	-	36,958	10,487	23,028	-	33,515
General and administrative <sup>(1)</sup>	4,231	11,651	5,359	21,241	2,760	7,881	4,020	14,661
Share-based plan <sup>(2)</sup>	-	-	6,372	6,372	-	-	381	381
Finance cost <sup>(3)</sup>	-	-	3,636	3,636	-	-	4,269	4,269
Other <sup>(4)</sup>	823	373	-	1,196	729	21	-	750
Profit (loss) before tax	14,125	66,929	(15,367)	65,687	13,213	47,384	(8,670)	51,927

(1) Included in general and administrative expenses for the corporate segment are employee, office, and other costs related to public company administration.

(2) The share-based plan expense for participants in both the U.S. and Canada is reported in the corporate segment.

(3) Finance costs from the Company's credit facilities are reported in the corporate segment.

(4) Included in other are the (gain) loss on sale of property, plant and equipment, and foreign exchange (gain) losses.

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	Canada	U.S.	Corporate	Total
<b>As at September 30, 2018</b>				
Property, plant and equipment	108,580	236,706	-	345,286
Intangible assets	8,759	1,466	-	10,225
Goodwill	1,621	-	-	1,621
Total assets	179,599	385,820	-	565,419
Total liabilities <sup>(1)</sup>	29,650	62,022	118,378	210,050
<b>As at December 31, 2017</b>				
Property, plant and equipment	109,225	198,825	-	308,050
Intangible assets	7,858	-	-	7,858
Goodwill	1,621	-	-	1,621
Total assets	187,284	314,064	-	501,348
Total liabilities <sup>(1)</sup>	23,147	48,255	111,452	182,854

<sup>(1)</sup> Included in total liabilities for the corporate segment are dividends payable, share-based plan liabilities, senior secured notes and accrued interest.

## 15 Commitments

The Company had the following commitments at September 30, 2018:

	2018	2019	2020	2021	2022	Thereafter	Total
Operating leases <sup>(1)</sup>	3,284	4,187	2,697	1,753	1,139	1,516	14,576
Service contract <sup>(2)</sup>	578	1,681	1,747	1,780	1,389	220	7,395
Senior secured note interest <sup>(3)</sup>	-	4,664	3,887	2,332	777	-	11,660
Senior secured note repayment <sup>(4)</sup>	-	-	32,190	32,190	32,190	-	96,570
Purchase commitments <sup>(5)</sup>	15,671	10,450	-	-	-	-	26,121
<b>Total</b>	<b>19,533</b>	<b>20,982</b>	<b>40,521</b>	<b>38,055</b>	<b>35,495</b>	<b>1,736</b>	<b>156,322</b>

<sup>(1)</sup> Operating leases include building and office space.

<sup>(2)</sup> Contract with third party service provider for information technology services related to the enterprise resource planning project.

<sup>(3)</sup> Senior note interest is the interest due on the Company's senior secured notes at 4.83% per annum paid semi-annually in arrears (see Note 9) translated into Canadian dollars at the average U.S. to Canadian exchange rate for 2018.

<sup>(4)</sup> Senior note repayment is the principal amounts of the senior secured notes due (see Note 9) translated into Canadian dollars at the average U.S. to Canadian exchange rate for 2018.

<sup>(5)</sup> Purchase commitments related to the manufacturing of hydrovacs, purchase of light-duty trucks and other committed capital expenditures.