

**Badger Daylighting Ltd.**

**Interim Consolidated Financial Statements (unaudited)**

For the period ended March 31, 2011

**REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Corporation have been prepared by Badger Daylighting Ltd. management.

The Corporation's independent auditor has not performed a review of the accompanying unaudited interim consolidated financial statements in accordance with standards established by the CICA for a review of interim financial statements by an entity's auditor.

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

	Notes	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	6	12,290,768	11,890,341	7,516,605
Trade and other receivables	7	40,647,488	37,869,248	30,205,878
Inventories	8	2,495,762	1,993,609	1,792,708
Prepaid expenses		1,115,177	1,163,748	776,997
Income taxes receivable		-	424,978	-
		<u>56,549,195</u>	<u>53,341,924</u>	<u>40,292,188</u>
<b>Non-current Assets</b>				
Property, plant and equipment	9	91,917,501	91,333,730	89,297,469
Intangible assets	10	6,746,513	6,520,513	6,416,512
		<u>98,664,014</u>	<u>97,854,243</u>	<u>95,713,981</u>
<b>Total Assets</b>		<b><u>155,213,209</u></b>	<b><u>151,196,167</u></b>	<b><u>136,006,169</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current Liabilities</b>				
Trade and other payables	11	14,443,269	12,324,323	10,558,287
Income taxes payable		1,108,279	-	907,377
Distributions payable	14	-	1,135,431	1,134,893
Dividends payable	14	919,159	-	-
Current portion of long-term debt	15	323,768	323,768	323,768
Provisions	12	1,088,000	1,450,850	805,847
		<u>17,882,475</u>	<u>15,234,372</u>	<u>13,730,172</u>
<b>Non-current Liabilities</b>				
Long-term debt	15	41,163,212	40,347,627	31,960,496
Provisions	12	-	-	2,789,638
Deferred taxation		20,423,979	20,194,282	19,960,129
		<u>61,587,191</u>	<u>60,541,909</u>	<u>54,710,263</u>
<b>Shareholders' Equity</b>				
Shareholders' capital	16	44,473,107	44,473,107	44,387,955
Contributed surplus	16	4,696,571	4,578,771	711,100
Foreign currency translation reserve	16	(3,531,381)	(2,112,889)	-
Retained earnings		30,105,246	28,480,897	22,466,679
		<u>75,743,543</u>	<u>75,419,886</u>	<u>67,565,734</u>
<b>Total Liabilities and Shareholders' Equity</b>		<b><u>155,213,209</u></b>	<b><u>151,196,167</u></b>	<b><u>136,006,169</u></b>
Commitments and contingencies	25			

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

**BADGER DAYLIGHTING LTD.**  
**Unaudited Interim Consolidated Statement of Comprehensive Income**  
(Expressed in Canadian Dollars)

		For the three months ended	
		March 31, 2011	March 31, 2010
	Notes	\$	\$
Revenues	18	40,970,978	30,333,959
Direct costs	19	28,147,994	19,646,283
<b>Gross profit</b>		<b>12,822,984</b>	<b>10,687,676</b>
Depreciation of property, plant and equipment	9	3,324,329	3,161,230
Amortization of intangible assets	10	49,000	49,000
Selling, general and administrative	19	2,697,642	2,341,936
<b>Operating profit</b>		<b>6,752,013</b>	<b>5,135,510</b>
Gain on sale of property, plant and equipment		(26,808)	(84,237)
Finance cost		297,599	214,591
<b>Profit before tax</b>		<b>6,481,222</b>	<b>5,005,156</b>
Income tax expense	13	2,099,396	696,110
<b>Net profit for the period</b>		<b>4,381,826</b>	<b>4,309,046</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations net of tax		(1,418,492)	(1,249,836)
<b>Total comprehensive income for the period attributable to shareholders of the Corporation</b>		<b>2,963,334</b>	<b>3,059,210</b>
<b>Earnings per share</b>			
Basic	20	0.41	0.40
Diluted	20	0.40	0.40

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

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

	Shareholders' capital \$	Contributed surplus \$	Foreign currency translation reserve \$	Retained earnings \$	Total equity \$
As at January 1, 2010	44,387,955	711,100	-	22,466,679	67,565,734
Net profit for the period	-	-	-	4,309,046	4,309,046
Other comprehensive income for the period	-	-	(1,249,836)	-	(1,249,836)
<b>Total comprehensive income for the period</b>	<b>44,387,955</b>	<b>711,100</b>	<b>(1,249,836)</b>	<b>26,775,725</b>	<b>70,624,944</b>
Distributions	-	-	-	(3,404,677)	(3,404,677)
<b>As at March 31, 2010</b>	<b>44,387,955</b>	<b>711,100</b>	<b>(1,249,836)</b>	<b>23,371,048</b>	<b>67,220,267</b>
As at January 1, 2011	44,473,107	4,578,771	(2,112,889)	28,480,897	75,419,886
Net profit for the period	-	-	-	4,381,826	4,381,826
Other comprehensive income for the period	-	-	(1,418,492)	-	(1,418,492)
<b>Total comprehensive income for the period</b>	<b>44,473,107</b>	<b>4,578,771</b>	<b>(3,531,381)</b>	<b>32,862,723</b>	<b>78,383,220</b>
Share-based payment transactions	-	117,800	-	-	117,800
Dividends	-	-	-	(2,757,477)	(2,757,477)
<b>As at March 31, 2011</b>	<b>44,473,107</b>	<b>4,696,571</b>	<b>(3,531,381)</b>	<b>30,105,246</b>	<b>75,743,543</b>

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

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

	Notes	For the three months ended March 31, 2011 S	March 31, 2010 S
<b>Operating activities</b>			
Profit after tax		4,381,826	4,309,046
Non-cash adjustments to reconcile profit from operations to net cash flows:			
Depreciation of property, plant and equipment	9	3,324,329	3,161,230
Amortization of intangible assets	10	49,000	49,000
Deferred Income taxes	13	604,900	270,400
Share-based payment transaction expense	16	117,800	(245,009)
Gain on sale of property plant and equipment		(26,808)	(84,237)
Unrealized foreign exchange gain on deferred tax		(375,203)	(609,942)
		<u>8,075,844</u>	<u>6,850,488</u>
Net change in non-cash working capital relating to operating activities		(167,708)	2,803,611
<b>Net cash flows from operating activities</b>		<u>7,908,136</u>	<u>9,654,099</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment	9	(5,108,099)	(2,599,688)
Purchase of intangible assets	10	(275,000)	-
Proceeds from sale of property, plant and equipment		33,554	194,157
<b>Net cash flows from investing activities</b>		<u>(5,349,545)</u>	<u>(2,405,531)</u>
<b>Financing activities</b>			
Proceeds from long-term debt		896,525	-
Repayment of long-term debt		(80,940)	(499,379)
Dividends/distributions paid to owners		(2,973,749)	(3,404,678)
<b>Net cash flows from financing activities</b>		<u>(2,158,164)</u>	<u>(3,904,057)</u>
Net increase in cash and cash equivalents		400,427	3,344,511
Cash and cash equivalents, beginning of period		11,890,341	7,516,605
<b>Cash and cash equivalents, end of period</b>	14	<u>12,290,768</u>	<u>10,861,116</u>
Supplemental cash flow information:			
Interest paid		297,599	214,591
Income tax paid (recovered)		(35,684)	1,559,502

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

# **BADGER DAYLIGHTING LTD.**

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

Three months ended March 31, 2011  
(Unaudited – Expressed in Canadian Dollars)

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### **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 2820, 715 - 5th Avenue SW, Calgary, Alberta, T2P 2X6.

On December 31, 2010, Badger Income Fund (the “Fund”) completed its conversion (the “Conversion”) from an income trust to a corporation pursuant to a Plan of Arrangement (the “Arrangement”). Pursuant to the Arrangement, Fund unitholders exchanged their Fund units for common shares of Badger on a one-for-one basis. All references to shares and shareholders in these consolidated financial statements pertain to common shares and common shareholders subsequent to the Conversion and units and unitholders prior to the Conversion.

The consolidated financial statements of the Corporation for the period ended March 31, 2011 were authorised for issue in accordance with a resolution of the directors on June 13, 2011.

### **2 Basis of Preparation**

#### **Statement of compliance**

These consolidated financial statements represent the first consolidated financial statements of the Corporation prepared in accordance with International Financial Reporting Standards (“IFRS”), including IAS 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”).

The Corporation adopted IFRS in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards (“IFRS 1”) with a transition date to IFRS of January 1, 2010. Consequently the comparative figures for 2010 and the Corporation’s statement of financial position as at January 1, 2010 have been restated from pre-changeover accounting principles generally accepted in Canada (“Canadian GAAP”) to comply with IFRS.

The reconciliations to IFRS from the previously published Canadian GAAP consolidated financial statements are summarized in note 27. In addition, IFRS 1 allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been used they are explained in note 27.

#### **Basis of measurement**

These consolidated financial statements are stated in Canadian dollars and were prepared under the historical cost convention except for share-based payment transactions which are measured at fair value.

#### **Use of estimates and judgments**

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Corporation’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

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

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

# **BADGER DAYLIGHTING LTD.**

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

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

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

The preparation of the 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments 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. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

#### **Impairment of non-financial assets**

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

#### **Share-based payment transactions**

The Corporation measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 17.

#### **Taxes**

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

#### **Useful lives of property, plant and equipment**

The Corporation estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in

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

Three months ended March 31, 2011

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the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

### **3 Significant accounting judgements, estimates and assumptions (continued)**

#### **Allowance for doubtful debts**

The Corporation makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance of doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

#### **Fair value of financial instruments**

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. Trade receivables are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

### **4 Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### **A) Basis of consolidation**

The consolidated financial statements include the accounts of Badger Daylighting Ltd. and its subsidiaries, all of which are wholly owned. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. All intra-company balances, income and expenses, unrealised gains and losses and dividends resulting from intra-company transactions are eliminated in full.

#### **B) Cash and cash equivalents**

Cash and cash equivalents include short-term investments with original maturities of three months or less and are recorded at cost, which approximates fair market value.

#### **C) Inventories**

Inventories are valued at the lower of cost and net realizable value, with cost being defined to include laid-down cost for materials and actual cost for direct labour on a weighted average basis.

#### **D) Leases**

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Corporation's statement of financial position. Operating lease payments are recognised as a direct cost in the consolidated statement of comprehensive income.

# **BADGER DAYLIGHTING LTD.**

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

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

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### **4 Summary of Significant Accounting Policies (continued)**

#### **E) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred.

Depreciation is calculated on a straight-line basis to recognize the cost less estimated residual value over the estimated useful life of the assets as follows:

Land improvements	10%
Buildings	5%
Shoring equipment	10%
Shop and office equipment	10%
Truck and trailers	10%-15%
Leasehold improvements	20%
Computers	25%

Depreciation of equipment under construction is not recorded until such time as the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Gains or losses arising from derecognition of an item of property, plant and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognized.

#### **F) Intangible assets**

Intangible assets represent service rights acquired, customer relationships, trade name and a non-compete agreement. Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and any expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

# BADGER DAYLIGHTING LTD.

## Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

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### 4 Summary of Significant Accounting Policies (continued)

#### F) Intangible assets (continued)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

A summary of the policies applied to the Corporation's intangible assets is as follows:

	Service rights	Customer relationships	Trade name	Non-compete agreement
Useful Lives	Indefinite	5 years	5 years	5 years
Amortization method	No amortization	Straight-line	Straight-line	Straight-line

#### G) Impairment of non-financial assets excluding goodwill

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### H) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

# **BADGER DAYLIGHTING LTD.**

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

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

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### **4 Summary of Significant Accounting Policies (continued)**

#### **I) Goodwill**

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Corporations CGU's expected to benefit from the synergies of the combination. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

#### **J) Taxes**

Tax expense comprises current and deferred tax. Tax is recognized in the income statement except to the extent it relates to items recognized in other comprehensive income or directly in equity.

##### **Current income tax**

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### **Deferred tax**

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

# **BADGER DAYLIGHTING LTD.**

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

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

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### **4 Summary of Significant Accounting Policies (continued)**

#### **K) Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, sales taxes or duty. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

##### **Rendering of services**

The Corporation recognizes revenue from services when the services are provided.

##### **Truck placement fees**

Truck placement fees are recognized when the truck is delivered.

#### **L) Share-based payment**

The Corporation operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees as consideration for equity instruments of the Corporation or cash payments.

##### **Equity-settled awards**

The Corporation uses the Black-Scholes pricing model to estimate the fair value of equity-settled awards at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

##### **Cash-settled awards**

The Corporation uses the Black-Scholes pricing model to estimate the fair value of cash-settled awards. Fair value is established initially at the grant date and the obligation is revalued each reporting period until the awards are settled with any changes in the obligation recognised in selling, general and administrative expenses in the statement of comprehensive income.

#### **M) Finance costs**

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

# **BADGER DAYLIGHTING LTD.**

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

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

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### **4 Summary of Significant Accounting Policies (continued)**

#### **N) Foreign currency translation**

The Corporation's consolidated financial statements are presented in Canadian dollars, which is also Badger Daylighting Ltd's functional currency.

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the statement of comprehensive income.

Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated other comprehensive income.

#### **O) Financial assets**

The Corporation classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Corporation's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the consolidated statement of financial position.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

A provision for impairment of trade receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

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

# **BADGER DAYLIGHTING LTD.**

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

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

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### **4 Summary of Significant Accounting Policies (continued)**

#### **P) Financial liabilities**

The Corporation classifies its financial liabilities as other financial liabilities. Management determines the classification of its financial liabilities at initial recognition. Other financial liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

Other financial liabilities include trade and other payables, distributions payable, dividends payable and long-term debt. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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.

#### **Q) Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

#### **R) Equity instruments**

Equity instruments issued by the Corporation are recorded at the proceeds received net of direct issue costs.

#### **S) Segment reporting**

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segments' operating results are reviewed regularly by the Corporation's President and CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

### **5 Recent accounting pronouncements**

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation:

- i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Corporation is currently assessing the impact of this standard.
- ii) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor

## BADGER DAYLIGHTING LTD.

### Notes to the Interim Consolidated Financial Statements

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in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Corporation is currently assessing the impact of this standard.

- iii) IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Corporation is currently assessing the impact of this standard.
- iv) IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Corporation is currently assessing the impact of this standard.

## 6 Cash and cash equivalents

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Cash at banks and on hand	2,522,523	1,827,431	2,742,690
Short-term investments	9,768,245	10,062,910	4,773,915
	<u>12,290,768</u>	<u>11,890,341</u>	<u>7,516,605</u>

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term investments are made for varying periods of between one and three months, depending on the immediate cash requirements of the Corporation, and earn interest at the respective short-term investment rates.

## 7 Trade and other receivables

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Trade receivables	39,502,157	36,666,531	30,137,653
Other sundry receivables	1,145,331	1,202,717	68,225
	<u>40,647,488</u>	<u>37,869,248</u>	<u>30,205,878</u>

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

The ageing analysis of trade receivables is as follows:

	Total \$	Not past due \$	Past due but not impaired		
			31-60 days \$	61-90 days \$	Greater than 90 days \$
March 31, 2011	39,502,157	26,558,275	7,102,788	1,556,374	4,284,720
December 31, 2010	36,666,531	21,973,031	7,579,145	3,646,612	3,467,743
January 1, 2010	30,137,653	16,458,994	6,513,229	3,300,569	3,864,861

## 8 Inventories

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
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**BADGER DAYLIGHTING LTD.**

**Notes to the Interim Consolidated Financial Statements**

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

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Raw materials	<b>2,495,762</b>	1,993,609	1,792,708
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**BADGER DAYLIGHTING LTD.**  
**Notes to the Interim Consolidated Financial Statements**

Three months ended March 31, 2011  
(Unaudited – Expressed in Canadian Dollars)

**9 Property, plant and equipment**

	Land	Land improve- ments\$	Land	Buildings	Equipment under construction	Shoring equipment	Shop and office equipment	Trucks and trailers	Leasehold improve- ments	Computers	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>											
At January 1, 2010	4,989,787	366,643	4,162,584	2,573,439	2,308,261	494,377	134,850,045	19,373	152,923	149,917,432	
Additions	137,500	-	4,793,441	2,998,126	17,287	48,305	9,033,880	22,630	35,185	17,086,354	
Disposals	-	-	-	-	(37,558)	(23,137)	(5,569,827)	-	-	(5,630,522)	
Exchange differences	-	-	-	-	-	(5,166)	(2,712,604)	(923)	(8,520)	(2,727,213)	
At December 31, 2010	5,127,287	366,643	8,956,025	5,571,565	2,287,990	514,379	135,601,494	41,080	179,588	158,646,051	
Additions	-	-	321,100	(1,626,003)	-	30,253	6,382,749	-	-	5,108,099	
Disposals	-	(366,643)	-	-	(69,443)	(76,932)	(541,478)	(9,865)	(73,084)	(1,137,445)	
Exchange differences	-	-	-	-	-	-	(1,859,925)	-	(2,584)	(1,862,509)	
At March 31, 2011	5,127,287	-	9,277,125	3,945,562	2,218,547	467,700	139,582,840	31,215	103,920	160,754,196	
<b>Depreciation and impairment</b>											
At January 1, 2010	-	366,643	2,139,212	-	1,130,667	282,383	56,554,975	13,787	132,296	60,619,963	
Charge for the year	-	-	297,574	-	187,130	52,084	12,063,678	6,347	25,213	12,632,026	
Disposals	-	-	-	-	(17,432)	(23,137)	(5,185,048)	-	-	(5,225,617)	
Exchange differences	-	-	-	-	-	21,523	(731,716)	(712)	(3,146)	(714,051)	
At December 31, 2010	-	366,643	2,436,786	-	1,300,365	332,853	62,701,889	19,422	154,363	67,312,321	
Charge for the period	-	(366,643)	139,025	-	45,937	12,841	3,118,973	1,569	5,984	3,324,329	
Disposals	-	-	-	-	(62,697)	(76,932)	(541,478)	(9,865)	(73,084)	(1,130,699)	
Exchange differences	-	-	-	-	-	(2,629)	(648,339)	94	(18,382)	(669,256)	
At March 31, 2011	-	-	2,575,811	-	1,283,605	266,133	64,631,045	11,220	68,881	68,836,695	
Net book value											
At January 1, 2010	4,989,787	-	2,023,372	2,573,439	1,177,594	211,994	78,295,070	5,586	20,627	89,297,469	
At December 31, 2010	5,127,287	-	6,519,239	5,571,565	987,625	181,526	72,899,605	21,658	25,225	91,333,730	
At March 31, 2011	5,127,287	-	6,701,314	3,945,562	934,942	201,567	74,951,795	19,995	35,039	91,917,501	

## BADGER DAYLIGHTING LTD.

### Notes to the Interim Consolidated Financial Statements

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(Unaudited – Expressed in Canadian Dollars)

## 10 Intangible assets

	Service rights \$	Customer relationships \$	Trade names \$	Non- compe- te agreements \$	Goodwill \$	Total \$
<b>Cost</b>						
At January 1, 2010	4,354,511	810,000	80,000	90,000	1,621,000	6,955,511
Additions	300,000	-	-	-	-	300,000
At December 31, 2010	4,654,511	810,000	80,000	90,000	1,621,000	7,255,511
Additions	275,000	-	-	-	-	275,000
At March 31, 2011	4,929,511	810,000	80,000	90,000	1,621,000	7,530,511
<b>Amortization and impairment</b>						
At January 1, 2010	-	445,500	44,000	49,499	-	538,999
Amortization for the period	-	162,000	16,000	17,999	-	195,999
At December 31, 2010	-	607,500	60,000	67,498	-	734,998
Amortization for the period	-	40,500	4,000	4,500	-	49,000
At March 31, 2011	-	648,000	64,000	71,998	-	783,998
<b>Net book value</b>						
At January 1, 2010	4,354,511	364,500	36,000	40,501	1,621,000	6,416,512
At December 31, 2010	4,654,511	202,500	20,000	22,502	1,621,000	6,520,513
At March 31, 2011	4,929,511	162,000	16,000	18,002	1,621,000	6,746,513

## 11 Trade and other payables

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>Current</b>			
Trade payables	11,354,008	10,710,915	7,516,011
Accrued expenses	2,892,314	1,508,149	664,232
Other sundry payables	196,947	105,259	2,378,044
	<b>14,443,269</b>	<b>12,324,323</b>	<b>10,558,287</b>

Trade payables are non-interest bearing and are normally settled on 45 day terms.

# BADGER DAYLIGHTING LTD.

## Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2011  
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### 12 Provisions

	Bonus \$	Performance Trust Share Plan \$	Unit option plan \$	Total \$
As at January 1, 2010	469,847	336,000	2,789,638	3,595,485
Arising during the period	677,850	437,000	1,078,033	2,192,883
Utilised	(469,847)	-	-	(469,847)
Transfer to equity	-	-	(3,867,671)	(3,867,671)
As at December 31, 2010	677,850	773,000	-	1,450,850
Arising during the period	382,000	-	-	382,000
Utilised	(677,850)	(67,000)	-	(744,850)
<b>As at March 31, 2011</b>	<b>382,000</b>	<b>706,000</b>	<b>-</b>	<b>1,088,000</b>

Upon conversion to a Corporation, the unit option plan was modified to provide the holder with the right to acquire ordinary shares of the Corporation which resulted in the share option plan being accounted for as an equity-settled share-based transaction (see note 17).

### 13 Income taxes

The major components of income tax expense for the periods ended are as follows:

	March 31, 2011 \$	March 31, 2010 \$
Current income tax	1,494,496	425,710
Deferred tax	604,900	270,400
<b>Total income tax expense</b>	<b>2,099,396</b>	<b>696,110</b>

The provision for income taxes, including deferred taxes, reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 27.35% (2010 – 28.85%). The Corporation's U.S. subsidiaries are subject to federal and state statutory tax rates of approximately 40% for both 2011 and 2010. The main differences are as follows:

	March 31, 2011 \$	March 31, 2010 \$
<b>Profit before tax</b>	<b>6,481,222</b>	<b>5,005,156</b>
Income tax expense at the statutory rate	1,772,614	1,443,988
Increase (decrease) resulting from:		
Income attributable to unitholders	-	(982,250)
Tax rates in other jurisdictions	81,070	149,680
Other items	245,712	84,692
Income tax expense	<b>2,099,396</b>	<b>696,110</b>

All deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. In addition, deferred tax assets and liabilities have been offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

## BADGER DAYLIGHTING LTD.

### Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

#### 14 Distributions/dividends payable

During the three months ended March 31, 2011, the Corporation paid cash dividends of \$1,838,318 (or \$0.17 per common share) and declared a \$919,159 cash dividend (or \$0.085 per common share) to its shareholders of record at the close of business on March 31, 2011 to be paid April 15, 2011.

The Corporation declares dividends monthly to its shareholders. Prior to the conversion to a corporation (see note 1), the Fund made cash distributions on a monthly basis. Determination of the amount of cash dividends for any period is at the sole discretion of the directors and is based on certain criteria including financial performance as well as the projected liquidity and capital resource position of the Corporation. Dividends are declared to shareholders of the Corporation on the last business day of each month and paid on the 15<sup>th</sup> day of the month following the declaration (or if such day is not a business day, the next following business day).

#### 15 Long-term debt

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Extendable revolving credit facility	38,309,370	37,412,841	28,701,939
Commercial mortgage on land and building, repayable in monthly principal payments of \$17,917 plus interest until June 2023, bearing interest at bank prime plus 0.75% [2011 – 3.75%; December 31, 2010 – 3.75%; January 1, 2010 – 3.00%]	2,633,748	2,687,500	2,902,492
Commercial mortgage on land and building, repayable in monthly principal payments of \$9,064 plus interest until February 2016, bearing interest at bank prime plus 0.75% [2011 – 3.75%; December 31, 2010 – 3.75%; January 1, 2010 – 3.00%]	543,862	571,054	679,833
	41,486,980	40,671,395	32,284,264
Less current portion	323,768	323,768	323,768
	41,163,212	40,347,627	31,960,496

The Corporation has established a \$40,000,000 extendable revolving credit facility, which subsequent to quarter end was increased to \$60,000,000. 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 [2010 – 3.00%] or bankers' acceptance rate plus 1.5% [2010 – 2.71%]. An additional stand-by fee calculated at an annual rate of 0.35% per annum is also required on the unused portion of the credit facility. This fee is expensed as incurred.

The credit facility has no required principal repayment. The credit facility expires on June 25, 2011 and is renewable at the Corporation's option for an additional 364 day period. If not renewed, interest is payable on the facility for 364 days after which the entire amount is to be repaid. This facility was renewed subsequent to March 31, 2011. See note 26.

The commercial mortgages and the extendable revolving credit facility are collateralized by a general security interest over the Corporation's assets, property and undertaking, present and future.

Under the terms of the credit facilities, the Corporation must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2011, and as at March 31, 2011, the Corporation was in compliance with all of these covenants.

**BADGER DAYLIGHTING LTD.**  
**Notes to the Interim Consolidated Financial Statements**

Three months ended March 31, 2011  
(Unaudited – Expressed in Canadian Dollars)

**15 Long-term debt (continued)**

As at March 31, 2011, the Corporation has issued letters of credit in the amount of approximately \$240,000. The outstanding letters of credit reduce the amount available under the extendable revolving credit facility.

At March 31, 2011, the Corporation had available \$1,690,630 (December 31, 2010: \$2,587,159) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

**16 Shareholders' capital and reserves**

**A) Authorized shares**

Pursuant to the Plan of Arrangement discussed in note 1, Fund unitholders received one common share of Badger in exchange for every unit held on effective date of the Conversion.

**B) Issued and outstanding**

	Number of Shares/Units	\$
At January 1, 2010	<b>10,808,503</b>	<b>44,387,955</b>
Units cancelled	(1,092)	-
Units issued pursuant to the unit option plan	6,220	85,152
At December 31, 2010 and March 31, 2011	<b>10,813,631</b>	<b>44,473,107</b>

**C) Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

**D) Contributed surplus**

The contributed surplus reserve is used to recognise the fair value of share options granted to employees, including key management personnel, as part of their remuneration. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital. Refer to Note 17 for further details of these plans.

	March 31, 2011 \$	December 31, 2010 \$
Opening balance	4,578,771	711,100
Modification to equity-settled share plan (note 17)	-	3,867,671
Share-based compensation expense	117,800	-
Closing balance	<b>4,696,571</b>	<b>4,578,771</b>

# BADGER DAYLIGHTING LTD.

## Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2011

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### 17 Share-based payment plans

#### Unit option plan (cash-settled)

Prior to conversion to a corporation on December 31, 2010 (see note 1), the Fund granted options, under the unit option plan. The unit options were granted to directors, officers, employees and consultants of the Fund. The options provide the holder with the right to acquire units, with terms that do not exceed 10 years from the date of the grant. The exercise price shall not be less than the closing price of the shares traded on the Toronto Stock Exchange on the first date preceding the date of the grant. Under the Unit Plan, vesting periods are determined by the trustees at the time of the grant. All unit options granted through to March 31, 2011 vest equally over a period of three years from the date of grant. The maximum number of Corporation units to be issued under this plan may not exceed 850,000 units.

Upon conversion to a Corporation, the Unit Plan was modified to provide the holder with the right to acquire ordinary shares of the Corporation (i.e. the share option plan). As a result of the modification, the share option plan (the "Share Plan") is accounted for as an equity-settled share-based transaction.

#### Share plan (equity-settled)

Under the Share Plan, directors, officers, employees and consultants of the Corporation are eligible to receive Corporation share options to acquire ordinary shares, with terms not to exceed 10 years from the date of the grant. The exercise price shall not be less than the closing price of the shares traded on the Toronto Stock Exchange on the first date preceding the date of the grant. Under the share option plan, vesting periods are determined by the directors of the Corporation at the time of the grant. All share options granted through to March 31, 2011 vest equally over a period of three years from the date of grant. The maximum number of Corporation shares to be issued under this plan may not exceed 850,000 shares.

A summary of the share-based payment transactions for the period ended March 31, 2011 and the year ended December 31, 2010 are as follows:

	March 31, 2011		December 31, 2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at beginning of period	768,280	16.96	-	-
Pursuant to the Plan of Arrangement	-	-	768,280	16.96
Forfeited/expired	(12,000)	18.07	-	-
Outstanding at end of period	756,280	16.95	768,280	16.96

The following provides a summary of the Share Plan as at March 31, 2011:

Options outstanding			Options exercisable		
Outstanding at March 31, 2011	Weighted average remaining contractual life	Weighted average exercise price \$	Number exercisable at March 31, 2011	Weighted average exercise price \$	
160,000	0.1	\$17.50	160,000	\$17.50	
50,000	0.4	\$17.45	50,000	\$17.45	
255,000	1.1	\$16.41	255,000	\$16.41	
110,375	2.2	\$22.45	73,583	\$22.45	
171,905	3.2	\$13.69	57,301	\$13.69	
9,000	4.4	\$14.20	-	-	

**BADGER DAYLIGHTING LTD.**  
**Notes to the Interim Consolidated Financial Statements**

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No options were issued or exercised during the period ended March 31, 2011. The estimated weighted average fair value of share options granted as of December 31, 2010 was \$4.96.

**17 Share-based payment plans (continued)**

The fair value of each shared-based payment transaction was estimated on the date of the grant, as determined by using the Black-Scholes option-pricing model with the following assumptions:

	<b>March 31, 2011</b>
Dividend yield	7.5%
Forfeiture %	0%
Risk-free interest rate	3.5%
Expected life of options	5 years
Expected volatility factor of the future expected market price of Corporation shares	<u>60%</u>

The Corporation recorded compensation expense, included as part of selling, general and administrative expense, of \$117,800 with an offsetting increase to contributed surplus in respect of the share options granted and outstanding as of March 31, 2011.

**Long-term incentive plan (the “Incentive Plan”)**

The Corporation has reserved 200,000 shares for issuance under the Incentive Plan. The shares from the Incentive Plan are issued at the ten day weighted average price prior to the issuance date, with the related cost recorded as compensation expense, which is included in selling, general and administrative.

**Performance Trust Share Plan (the “PTU Plan”)**

The Corporation established the PTU Plan to reward officers and employees. The number of shares earned is dependent upon the achievement of certain financial targets over a three-year period. The PTUs are earned over the same three-year period and vest on the third anniversary of the grant, at which time the holder is entitled to cash equal to the aggregate current market value of the number of shares subject to the PTUs. Dividends per PTU are added to the entitlement after the PTUs are earned. Compensation expense is based on the estimated fair value of the award determined at the end of each quarter and recognized on a straight-line basis throughout the term of the vesting period, with a corresponding increase to provisions. On May 13, 2008, May 15, 2009 and May 11, 2010, the Corporation granted awards pursuant to the plan and has recorded a recovery of \$67,000 for the period ended March 31, 2011, which is included in selling, general and administrative expense.

**18 Revenue**

	<b>March 31, 2011</b>	<b>March 31, 2010</b>
	<b>\$</b>	<b>\$</b>
Rendering of services	40,847,225	30,003,895
Truck placement fees	123,753	330,064
	<u><b>40,970,978</b></u>	<u>30,333,959</u>

## BADGER DAYLIGHTING LTD.

### Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

## 19 Expenses by nature

Direct costs and selling, general and administrative expenses include the following major by nature expenses:

	March 31, 2011 \$	March 31, 2010 \$
Wages, salaries and benefits	13,188,780	9,098,560
Share-based payment	117,800	(245,009)
	<u>13,306,580</u>	<u>8,853,551</u>

## 20 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 (number of units) 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, 2011, was based on the profit available to common shareholders of \$4,381,826 (2010 - \$4,309,046), and a weighted average number of common shares outstanding of 10,813,631 (2010 – 10,808,503), calculated as follows:

Weighted average number of common shares

	March 31, 2011 \$	March 31, 2010 \$
Issued common shares outstanding, beginning of period	10,813,631	10,808,503
Effect of share options exercised	-	-
Weighted average number of common shares, end of period	<u>10,813,631</u>	<u>10,808,503</u>

### Diluted EPS

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential shares. The effects of anti-dilutive potential shares are ignored in calculating diluted EPS. All options are considered anti-dilutive when the Corporation is in a loss position.

The calculation of diluted earnings per share for the three months ended March 31, 2011, was based on a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 10,959,380 (2010 – 10,828,308), calculated as follows:

	March 31, 2011 \$	March 31, 2010 \$
Weighted average number of common shares (basic)	10,813,631	10,808,503
Effect of share options	145,749	19,805
Weighted average number of common shares (diluted)	<u>10,959,380</u>	<u>10,828,308</u>

## **BADGER DAYLIGHTING LTD.**

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For the three months ended March 31, 2011, 110,375 options (2010 – 581,375) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Corporation's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

## BADGER DAYLIGHTING LTD.

### Notes to the Interim Consolidated Financial Statements

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## 21 Segment reporting

The Corporation operates in two geographic/reportable segments providing non-destructive excavating services to each of these segments. The following is selected information for the periods ended March 31, 2011 and 2010 based on these geographic segments.

Each segment is responsible for its operating results.

For three months ended:	March 31, 2011			March 31, 2010		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	26,204,116	14,766,862	40,970,978	17,715,594	12,618,365	30,333,959
Direct costs	16,794,814	11,353,180	28,147,994	11,129,865	8,516,418	19,646,283
Depreciation of property, plant and equipment	1,994,239	1,330,090	3,324,329	1,836,132	1,325,098	3,161,230
Amortization of intangible assets	49,000	-	49,000	49,000	-	49,000
Selling, general and administrative	2,228,686	468,956	2,697,642	1,603,277	738,659	2,341,936
Profit before tax	4,869,572	1,611,650	6,481,222	2,989,490	2,015,666	5,005,156

#### Selected Consolidated Statement of Financial Position Information

	Canada (\$)	U.S. (\$)	Total (\$)
<b>As At March 31, 2011</b>			
Property, plant and equipment	55,937,436	35,980,065	91,917,501
Intangible assets	6,746,513	-	6,746,513
Total assets	92,781,661	62,431,548	155,213,209
<b>As at December 31, 2010</b>			
Property, plant and equipment	54,922,254	36,411,476	91,333,730
Intangible assets	6,520,513	-	6,520,513
Total assets	87,990,962	63,205,205	151,196,167
<b>As at January 1, 2010</b>			
Property, plant and equipment	49,774,184	39,523,285	89,297,469
Intangible assets	6,416,512	-	6,416,512
Total assets	75,345,036	60,661,133	136,006,169

#### Selected Consolidated Statement of Cash Flow Information

For three months ended:	March 31, 2011			March 31, 2010		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Additions to non-current assets:						
Property, plant and equipment	1,308,941	3,799,158	5,108,099	2,426,521	173,167	2,599,688
Intangible assets	275,000	-	275,000	-	-	-

## BADGER DAYLIGHTING LTD.

### Notes to the Interim Consolidated Financial Statements

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## 22 Related party disclosure

The consolidated financial statements include the financial statements of Badger Daylighting Ltd. and the subsidiaries listed in the following table:

Name	Country of Incorporation	% equity interest	
		2011	2010
Badger Daylighting Inc.	Canada	100%	100%
Badger Daylighting (Fort McMurray) Inc.	Canada	100%	100%
Badger Edmonton Ltd.	Canada	100%	100%
1095909 Alberta Ltd.	Canada	100%	100%
Badger ULC	Canada	100%	100%
Badger Daylighting USA, Inc.	United States of America	100%	100%
Badger Daylighting Corp.	United States of America	100%	100%
Badger, LLC	United States of America	100%	100%

Balances and transactions between Badger Daylighting Ltd. and its subsidiaries, which are related parties of the Badger Daylighting Ltd., have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

### Transactions with related parties

During the period ended March 31, 2011, the Corporation was charged \$200,000 [2010 - \$56,000] for professional fees by a partnership in which a director of the Corporation is a partner. These transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### Related party balances

As at March 31, 2011 and December 31, 2010 there were no significant outstanding balances with related parties.

### Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the periods were as follows:

	March 31, 2011 \$	March 31, 2010 \$
Compensation, including bonuses	383,975	263,975
Share-based payments	58,900	(122,500)
	<b>442,875</b>	<b>141,475</b>

### Key management personnel and director transactions

Key management and directors of the Corporation control 3.3 percent of the voting shares of the Corporation.

# BADGER DAYLIGHTING LTD.

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### 23 Capital management

The Corporation's strategy is to carry a capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Corporation considers the capital structure to consist of net debt and shareholders' equity. The Corporation considers net debt to be total long-term debt less cash and cash equivalents. The Corporation seeks to maintain a balance between the level of net debt and shareholders' equity to facilitate access to capital markets to fund growth and working capital. On a historical basis, it is management's objective and view that the Corporation has maintained a conservative and appropriate ratio of net debt to net debt plus shareholders' equity. The Corporation may occasionally need to increase these levels to facilitate acquisition or expansion activities. This ratio was as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Long-term debt	41,486,980	40,671,395	32,284,264
Cash and cash equivalents	(12,290,768)	(11,890,341)	(7,516,605)
Net debt	29,196,212	28,781,054	24,767,659
Shareholders' equity	75,743,543	75,419,886	67,565,734
Total capitalization	104,939,755	104,200,940	92,333,393
Net debt to total capitalization (%)	28%	28%	27%

The Corporation sets the amounts of its various forms of capital in proportion to risk. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce net debt.

The Corporation is bound by certain financial and non-financial covenants as defined by its bank. If the Corporation is in violation of any of these covenants its ability to pay dividends may be inhibited. The Corporation monitors these covenants to ensure it remains in compliance. The financial covenants are as follows:

Ratio	March 31, 2011	December 31, 2010	Threshold
Current <sup>[1]</sup>	3.22:1	3.58:1	1.20:1 minimum
Funded Debt <sup>[2]</sup> to EBITDA <sup>[3]</sup>	0.80:1	0.83:1	2.00:1 maximum
Fixed Charge Coverage <sup>[4]</sup>	1.91:1	1.91:1	1.00:1 minimum
Dividend <sup>[5]</sup>	0.60:1	0.71:1	1.00:1 maximum

[1] Current Ratio means, the ratio of the consolidated current assets to consolidated net current liabilities [excluding the current portion of long-term debt].

[2] Funded debt is long-term debt, less cash and cash equivalents.

[3] Funded Debt to EBITDA (earnings before interest, taxes, depreciation and amortization) means the ratio of consolidated Funded Debt to the aggregated EBITDA for the trailing twelve-months. Funded Debt is defined as long-term debt including any current portion thereof. EBITDA is defined as the trailing twelve-months of EBITDA for the Corporation.

[4] Fixed Charge Coverage Ratio means, based on the trailing twelve-month EBITDA less unfinanced capital expenditures and cash taxes, plus the unused portion of the extendable revolving credit facility to the sum of the aggregate of scheduled long-term debt principal payments, interest and dividends.

[5] Dividend ratio means dividends for the trailing twelve-month period to the sum of funds generated from operations less scheduled long-term debt principal payments and maintenance capital expenditures.

Throughout 2011 and as at March 31, 2011 the Corporation was in compliance with all of these covenants.

# **BADGER DAYLIGHTING LTD.**

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

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There were no changes in the Corporation's approach to capital management during the period.

### **24 Financial instruments and risk management**

The Corporation's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Corporation's financial performance.

Risk management is carried out by senior management, in particular, the Board of Directors.

#### **Fair values**

The Corporation's financial instruments recognized on the consolidated statement of financial position consist of cash and cash equivalents, trade and other receivables, trade and other payables, distributions payable, dividends payable and long-term debt. The fair values of these recognized financial instruments, excluding long-term debt, approximate their carrying values due to their short-term maturity. The carrying value of the long-term debt approximates fair value because each of the long-term facilities has a floating interest rate.

#### **Credit risk**

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the statement of financial position date. A substantial portion of the Corporation's trade receivable balance is with customers in the petroleum and utility industries and is subject to normal industry credit risks. The Corporation manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Corporation attempts to monitor financial conditions of its customers and the industries in which they operate.

The maximum exposure to credit risk as at:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade and other receivables	40,647,488	37,869,248	30,205,878
Cash and cash equivalents	12,290,768	11,890,341	7,516,605
	<b>52,938,256</b>	<b>49,759,589</b>	<b>37,722,483</b>

#### **Liquidity risk**

Liquidity risk is the risk that, as a result of operational liquidity requirements, the Corporation will not have sufficient funds to settle an obligation on the due date and will be forced to sell financial assets at a price which is less than what they are worth, or will be unable to settle or recover a financial asset.

The Corporation's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Corporation to raise capital by issuing equity or obtaining additional debt financing. The Corporation also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

At March 31, 2011, the Corporation had available \$1,690,630 of authorized borrowing capacity on the extendable revolving credit facility. The credit facility expires on June 25, 2011 renewable at the Corporation's option for an additional 364-day period. If not renewed, interest is payable on the facility for 364 days after which the entire amount is to be repaid. The Corporation believes it has sufficient funding through operations and the use of this facility to meet foreseeable financial obligations. Subsequent to quarter end, this facility was renewed. See note 26.

## BADGER DAYLIGHTING LTD.

### Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

#### 24 Financial instruments and risk management (continued)

The table below summarizes the maturity profile of the Corporation's financial liabilities at March 31, 2011 and December 31, 2010 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
<b>As at March 31, 2011</b>					
Trade and other payables	14,443,269	-	-	-	14,443,269
Long-term debt	323,768	38,956,906	971,304	1,235,002	41,486,980
	<u>14,767,037</u>	<u>38,956,906</u>	<u>971,304</u>	<u>1,235,002</u>	<u>55,930,249</u>

#### Market risk

The significant market risk exposures affecting the financial instruments held by the Corporation are those related to interest rates and foreign currency exchange rates which are explained as follows:

#### Interest rate risk

The Corporation is exposed to interest rate risk in relation to interest expense on its long-term debt. Interest is calculated at prime to prime plus 0.75% for certain of its borrowing facilities. The prime interest rate is subject to change. A sensitivity analysis would indicate that net profit for the period ended March 31, 2011 would have been affected by approximately \$74,000 if the average interest rate changed by one percent. The Corporation does not currently use interest rate hedges or fixed interest rate contracts to manage the Corporation's exposure to interest rate fluctuations.

#### Foreign exchange risk

The Corporation has United States operations and Canadian operations which purchase certain products in United States dollars. As a result, fluctuations in the value of the Canadian dollar relative to the United States dollar can result in foreign exchange gains and losses. The Corporation does not currently have any agreements to fix or hedge the exchange rate of the Canadian dollar to the United States dollar.

United States dollar denominated balances, subject to exchange rate fluctuations, were as follows (amounts shown in Canadian dollar equivalent):

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Cash and cash equivalents	12,290,768	11,890,341	7,516,605
Trade and other receivables	13,285,592	14,379,943	13,143,011
Trade and other payables	(3,694,915)	(4,762,286)	(5,770,681)
Income taxes payable	(439,161)	(437,000)	(315,000)
Long-term debt	(24,735,000)	(25,500,000)	(26,775,000)
	<u>(3,292,716)</u>	<u>(4,429,002)</u>	<u>(12,201,065)</u>

The following table demonstrates the Corporation's sensitivity to a 10% increase or decrease in the Canadian dollar against the foreign exchange rates. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in the foreign currency rate (amounts shown in Canadian dollar equivalent).

	Effect on profit/(loss) before tax 2011	Effect on profit/(loss) before tax 2010
<b>Increase/decrease in foreign exchange rate</b>		
10% strengthening in the Canadian dollar against the US dollar	(146,000)	(174,000)
10% weakening in the Canadian dollar against the US dollar	163,000	218,000

## **BADGER DAYLIGHTING LTD.**

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## **25 Commitments and contingencies**

### **Legal disputes**

The Corporation is not involved in any legal disputes that would generate a material impact to the financial results of the Corporation.

### **Operating leases**

The Corporation has entered into operating leases for shop and office premises.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Within one year	732,000	793,000	779,000
After one year but not more than five years	826,000	736,000	940,000
More than five years	-	-	-
<b>Total</b>	<b>1,558,000</b>	<b>1,529,000</b>	<b>1,719,000</b>

### **Purchase commitments**

At March 31, 2011 the Corporation has commitments to purchase approximately \$12,400,000 worth of capital assets and various parts and materials. There are no set terms for remitting payment for these financial obligations.

## **26 Subsequent events**

1. On January 26, 2011, the Corporation signed an agreement to be acquired by Clean Harbors, Inc. ("Clean Harbors"). Under the terms of the agreement, Clean Harbors was to acquire 100% of the Corporation's outstanding common shares for cash consideration of \$20.50 per common share (the "Transaction"). The Transaction was conditional on the approval of not less than 66 2/3 percent of the votes cast by the shareholders and optionholders. The Corporation held a meeting to consider the Transaction on April 26, 2011. The shareholder and optionholder vote did not receive the requisite number of votes required to approve the Transaction and as a result the Transaction was not completed. As a result pursuant to the terms of the agreement the Corporation must reimburse Clean Harbors for their expenses up to a maximum of \$1,500,000.
2. In June, 2011, the Corporation renewed the extendable revolving credit facility. The principal was increased from \$40,000,000 to \$60,000,000. The facility has no required principal repayments and expires on June 24, 2012. It is renewable at Badger's option for an additional 364-day period. If not renewed, interest is payable on the facility for 364 days, after which the entire amount must be repaid. The facility bears interest at the bank's prime rate or bankers' acceptance rate plus 1.25 percent plus 0 to 0.75 percent depending on Badger's funded-debt-to-EBITDA ratio.
3. Subsequent to March 31, 2011, pursuant to the share option plan the Corporation had certain vested options surrendered by employees in return for a cash settlement of \$2,191,648.

# **BADGER DAYLIGHTING LTD.**

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

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### **27 Explanation of transition to IFRS**

The consolidated financial statements for the period ended March 31, 2011 are the Corporation's first interim consolidated financial statements prepared under IFRS. For all accounting periods prior to this, the Corporation prepared its consolidated financial statements under pre-changeover Canadian GAAP. In accordance with IFRS 1, certain disclosures relating to the transition to IFRS are given in this note. These disclosures are prepared under IFRS as set out in the basis of preparation in note 2.

IFRS 1 allows first time adopters to IFRS to take advantage of a number of voluntary exemptions from the general principal of retrospective restatement. The Corporation has taken the following exemptions:

#### **IFRS 2**

This standard has not been applied to equity settled share-based payment transactions where equity instruments were granted after November 7, 2002 but vested before January 1, 2010, the Corporation's transition date.

#### **IFRS 3**

This standard has not been applied retrospectively to business combinations that took place before the transition date.

#### **IFRIC 4**

This IFRIC has not been applied retrospectively. The Corporation made an assessment as to whether an arrangement, existing at the transition date, contains a lease on the basis of the facts and circumstances existing at that date. The assessment was made in accordance with the requirements IFRIC 4. The Corporation did not identify any arrangements containing a lease on the transition date.

#### **IAS 21**

This standard has not been applied retrospectively with regards to calculating the foreign currency translation reserve. The foreign currency translation reserve has been set to zero on the transition date and therefore a gain or loss on subsequent disposal of a foreign operation will only include foreign exchange differences that arose subsequent to the transition date.

#### **IAS 23**

This standard has not been applied retrospectively. As at the transition date, the Corporation did not have any qualifying assets.

**BADGER DAYLIGHTING LTD.****Notes to the Interim Consolidated Financial Statements**

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**27.1 Reconciliation of equity as at January 1, 2010**

	Pre- changeover Canadian GAAP \$	Effect of transition to IFRS				IFRS \$
		Reclassifi- cations (Note 1) \$	Share- based payments (Note 2) \$	Foreign currency (Note 3) \$	Deferred tax (Note 4) \$	
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	7,516,605					7,516,605
Trade and other receivables	30,205,878					30,205,878
Inventories	1,792,708					1,792,708
Prepaid expenses	776,997					776,997
	40,292,188	-	-		-	40,292,188
<b>Non-current Assets</b>						
Property, plant and equipment	91,155,437			(1,857,968)		89,297,469
Intangible assets	6,416,512					6,416,512
	97,571,949	-	-	(1,857,968)	-	95,713,981
<b>Total Assets</b>	137,864,137	-	-	(1,857,968)	-	136,006,169
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>Current Liabilities</b>						
Trade and other payables	11,364,134	(805,847)				10,558,287
Provisions	-	805,847				805,847
Income taxes payable	907,377					907,377
Distributions payable	1,134,893					1,134,893
Current portion of long-term debt	323,768					323,768
	13,730,172	-	-	-	-	13,730,172
<b>Non-current Liabilities</b>						
Long-term debt	31,960,496					31,960,496
Provisions	-		2,789,638			2,789,638
Deferred taxation	19,280,129				680,000	19,960,129
	51,240,625	-	2,789,638	-	680,000	54,710,263
<b>Shareholders' Equity</b>						
Shareholders' capital	-					-
Unitholders' capital	44,387,955					44,387,955
Contributed surplus	3,813,850		(3,102,750)			711,100
Retained earnings	24,691,535		313,112	(1,857,968)	(680,000)	22,466,679
	72,893,340	-	(2,789,638)	(1,857,968)	(680,000)	67,565,734
<b>Total Liabilities and Shareholders' Equity</b>	137,864,137	-	-	(1,857,968)	-	136,006,169

# **BADGER DAYLIGHTING LTD.**

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

Three months ended March 31, 2011  
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### **27.1 Reconciliation of equity as at January 1, 2010 (continued)**

The following explains the material adjustments to the consolidated statement of financial position as at January 1, 2010:

#### **Note 1 - Reclassifications**

Under pre-changeover Canadian GAAP, provisions are presented in trade and other payables. Under IFRS, separate disclosure on the face of the consolidated statement of financial position is required for the Corporation's provisions.

#### **Note 2 - Share-based payments**

Under pre-changeover Canadian GAAP, the Funds stock options awards granted to employees were classified as equity-settled share based awards and the fair value of the options was determined at the grant date and recognized on a straight-line basis over the employment period necessary to vest the award.

Under IFRS, the stock option awards are classified as cash-settled share-based awards. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value measurement at each reporting period. Each grant is accounted for on that basis. As a result, the Corporation adjusted its expense for share-based awards to reflect this difference in recognition and reflects the related liability provisions.

#### **Note 3 – Foreign currency**

Under IFRS, the functional currency of an entity is determined by focusing on the primary economic environment in which it operates and less precedence is placed on factors regarding the financing from and operational involvement of the reporting entity which consolidates the entity in its financial statements. Under pre-changeover Canadian GAAP, equal precedence is placed on all factors. The effect of this change to IFRS resulted in the Corporation's United States subsidiaries having a different functional currency than the Corporation's functional currency. As such, the translation of the results and statement of financial position of the foreign operations into the Corporation's presentation currency requires a translation of all assets and liabilities at the closing rate at each reporting date with all resulting foreign exchange gains or losses recognized in other comprehensive income ("OCI"). Revenues and expenses of foreign operations are translated using average monthly foreign exchange rates, which approximate the foreign exchange rates on the dates of the transactions with foreign exchange differences recognized in OCI.

The Corporation reversed the balance of exchange differences on translation of foreign operations within other reserves and recorded a decrease to opening retained earnings.

#### **Note 4 – Deferred tax**

Under pre-changeover Canadian GAAP, the distributions to unitholders were a tax deductible item.

Under IFRS, the distributions to unitholders are not a tax deductible item. As a result, a higher tax rate must be applied to the December 31, 2009 temporary differences.

**BADGER DAYLIGHTING LTD.****Notes to the Interim Consolidated Financial Statements**

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**27.2 Reconciliations as at December 31, 2010**Reconciliation of equity as at December 31, 2010

	Pre- changeover Canadian GAAP \$	Effect of transition to IFRS			IFRS \$
		Reclassifi- cations (Note 1) \$	Share- based payments (Note 2) \$	Foreign currency (Note 3) \$	
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	11,890,341				11,890,341
Trade and other receivables	37,869,248				37,869,248
Inventories	1,993,609				1,993,609
Income taxes receivable	424,978				424,978
Prepaid expenses	1,163,748				1,163,748
	53,341,924	-	-	-	53,341,924
<b>Non-current Assets</b>					
Property, plant and equipment	94,566,785			(3,233,055)	91,333,730
Intangible assets	6,520,513				6,520,513
	101,087,298	-	-	(3,233,055)	97,854,243
<b>Total Assets</b>	<b>154,429,222</b>	<b>-</b>	<b>-</b>	<b>(3,233,055)</b>	<b>151,196,167</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>EQUITY</b>					
<b>Current Liabilities</b>					
Trade and other payables	13,775,173	(1,450,850)			12,324,323
Provisions	-	1,450,850			1,450,850
Distributions payable	1,135,431				1,135,431
Current portion of long-term debt	323,768				323,768
	15,234,372	-	-	-	15,234,372
<b>Non-current Liabilities</b>					
Long-term debt	40,347,627				40,347,627
Deferred taxation	20,194,282				20,194,282
	60,541,909	-	-	-	60,541,909
<b>Shareholders' Equity</b>					
Shareholders' capital	44,473,107				44,473,107
Contributed surplus	4,544,450		34,321		4,578,771
Foreign currency translation reserve	-			(2,112,889)	(2,112,889)
Retained earnings	29,635,384		(34,321)	(1,120,166)	28,480,897
	78,652,941	-	-	(3,233,055)	75,419,886
<b>Total Liabilities and Shareholders' Equity</b>	<b>154,429,222</b>	<b>-</b>	<b>-</b>	<b>(3,233,055)</b>	<b>151,196,167</b>

**BADGER DAYLIGHTING LTD.****Notes to the Interim Consolidated Financial Statements**

Three months ended March 31, 2011

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**27.2 Reconciliations as at December 31, 2010 (continued)**

Reconciliation of comprehensive income for the year ended December 31, 2010

	Pre- changeover Canadian GAAP \$	Effect of transition to IFRS			IFRS \$
		Share-based payments (Note 2) \$	Foreign currency (Note 3) \$	Deferred tax (Note 4) \$	
Revenues	139,610,783				139,610,783
Direct costs	92,403,644				92,403,644
<b>Gross profit</b>	<b>47,207,139</b>	-	-	-	<b>47,207,139</b>
Depreciation of property, plant and equipment	12,975,873		(343,847)		12,632,026
Amortization of intangible assets	195,999				195,999
Selling, general and administrative	12,224,084	347,433			12,571,517
<b>Operating profit</b>	<b>21,811,183</b>	347,433	343,847	-	<b>21,807,597</b>
Foreign exchange (gain)/loss	393,954		(393,954)		-
Gain on sale of property, plant and equipment	(102,154)				(102,154)
Finance cost	984,724				984,724
<b>Profit before tax</b>	<b>20,534,659</b>	(347,433)	737,801	-	<b>20,925,027</b>
Income tax expense	1,971,931			(680,000)	1,291,931
<b>Net profit for the year</b>	<b>18,562,728</b>	(347,433)	737,801	680,000	<b>19,633,096</b>
<b>Other comprehensive income</b>					
Exchange differences on translation of foreign operations net of tax	-		(2,112,889)		(2,112,889)
<b>Other comprehensive income for the year, net of tax</b>	<b>-</b>	<b>-</b>	<b>(2,112,889)</b>	<b>-</b>	<b>(2,112,889)</b>
<b>Total comprehensive income for the year attributable to shareholders of the Corporation</b>	<b>18,562,728</b>	<b>(347,433)</b>	<b>(1,375,088)</b>	<b>680,000</b>	<b>17,520,207</b>

# **BADGER DAYLIGHTING LTD.**

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

Three months ended March 31, 2011  
(Unaudited – Expressed in Canadian Dollars)

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### **27.2 Reconciliations as at December 31, 2010 (continued)**

The following explains the material adjustments to the consolidated statement of financial position as at December 31, 2010:

#### **Note 1 - Reclassifications**

Under pre-changeover Canadian GAAP, provisions are presented in trade and other payables. Under IFRS, separate disclosure on the face of the consolidated statement of financial position is required for the Corporation's provisions.

#### **Note 2 - Share-based payments**

Under pre-changeover Canadian GAAP, the Funds stock options awards granted to employees were classified as equity-settled share based awards and the fair value of the options was determined at the grant date and recognized on a straight-line basis over the employment period necessary to vest the award.

Under IFRS, the stock option awards are classified as cash-settled share-based awards. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value measurement at each reporting period. Each grant is accounted for on that basis. As a result, the Corporation adjusted its expense for share-based awards to reflect this difference in recognition.

#### **Note 3 – Foreign currency**

Under IFRS, the functional currency of an entity is determined by focusing on the primary economic environment in which it operates and less precedence is placed on factors regarding the financing from and operational involvement of the reporting entity which consolidates the entity in its financial statements. Under pre-changeover Canadian GAAP, equal precedence is placed on all factors. The effect of this change to IFRS resulted in the Corporation's United States subsidiaries having a different functional currency than the Corporation's functional currency. As such, the translation of the results and statement of financial position of the foreign operations into the Corporation's presentation currency requires a translation of all assets and liabilities at the closing rate at each reporting date with all resulting foreign exchange gains or losses recognized in OCI. Revenues and expenses of foreign operations are translated using average monthly foreign exchange rates, which approximate the foreign exchange rates on the dates of the transactions with foreign exchange differences recognized in OCI.

The Corporation reversed the balance of exchange differences on translation of foreign operations within other reserves and recorded a decrease to opening retained earnings.

#### **Note 4 – Deferred tax**

Under pre-changeover Canadian GAAP, the distributions to unitholders were a tax deductible item.

Under IFRS, the distributions to unitholders are not a tax deductible item. As a result, a higher tax rate must be applied to the December 31, 2009 temporary differences.

## BADGER DAYLIGHTING LTD.

### Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

#### 27.3 Reconciliations as at March 31, 2010

Reconciliation of equity as at March 31, 2010

	Pre- changeover Canadian GAAP \$	Effect of transition to IFRS				IFRS \$
		Reclassifi- cations (Note 1) \$	Share- based payments (Note 2) \$	Foreign currency (Note 3) \$	Deferred tax (Note 4) \$	
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	10,861,116					10,861,116
Trade and other receivables	25,682,157					25,682,157
Inventories	1,938,205					1,938,205
Prepaid expenses	1,055,888					1,055,888
	39,537,366	-	-	-	-	39,537,366
<b>Non-current Assets</b>						
Property, plant and equipment	90,390,105			(2,868,573)		87,521,532
Intangible assets	6,367,513					6,367,513
	96,757,618	-	-	(2,868,573)	-	93,889,045
<b>Total Assets</b>	<b>136,294,984</b>	<b>-</b>	<b>-</b>	<b>(2,868,573)</b>	<b>-</b>	<b>133,426,411</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>Current Liabilities</b>						
Trade and other payables	11,089,555	(662,863)				10,426,692
Provisions	-	662,863				662,863
Income taxes receivable	31,595					31,595
Distributions payable	1,134,893					1,134,893
Current portion of long-term debt	323,768					323,768
	12,579,811	-	-	-	-	12,579,811
<b>Non-current Liabilities</b>						
Long-term debt	31,461,117					31,461,117
Provisions	-		2,544,629			2,544,629
Deferred taxation	18,940,587				680,000	19,620,587
	50,401,704	-	2,544,629	-	680,000	53,626,333
<b>Shareholders' Equity</b>						
Unitholders' capital	44,387,955					44,387,955
Contributed surplus	4,095,850		(3,384,750)			711,100
Foreign currency translation reserve	-			(1,249,836)		(1,249,836)
Retained earnings	24,829,664		840,121	(1,618,737)	(680,000)	23,371,048
	73,313,469	-	(2,544,629)	(2,868,573)	(680,000)	67,220,267
<b>Total Liabilities and Shareholders' Equity</b>	<b>136,294,984</b>	<b>-</b>	<b>-</b>	<b>(2,868,573)</b>	<b>-</b>	<b>133,426,411</b>

**BADGER DAYLIGHTING LTD.****Notes to the Interim Consolidated Financial Statements**

Three months ended March 31, 2011

(Unaudited – Expressed in Canadian Dollars)

**27.3 Reconciliations as at March 31, 2010 (continued)**

Reconciliation of comprehensive income for the period ended March 31, 2010

	Pre- changeover Canadian GAAP \$	Effect of transition to IFRS			IFRS \$
		Share-based payments (Note 2) \$	Foreign currency (Note 3) \$	Deferred tax (Note 4) \$	
Revenues	30,333,959				30,333,959
Direct costs	19,646,283				19,646,283
<b>Gross profit</b>	<b>10,687,676</b>	-	-	-	10,687,676
Depreciation of property, plant and equipment	3,255,099		(93,869)		3,161,230
Amortization of intangible assets	49,000				49,000
Selling, general and administrative	2,868,945	(527,009)			2,341,936
<b>Operating profit</b>	<b>4,514,632</b>	527,009	(93,869)	-	5,135,510
Foreign exchange (gain)/loss	145,361		(145,361)		-
Gain on sale of property, plant and equipment	(84,237)				(84,237)
Finance cost	214,591				214,591
<b>Profit before tax</b>	<b>4,238,917</b>	527,009	239,230	-	5,005,156
Income tax expense	696,110				696,110
<b>Net profit for the period</b>	<b>3,542,807</b>	527,009	239,230	-	4,309,046
<b>Other comprehensive income</b>					
Exchange differences on translation of foreign operations net of tax	-		(1,249,836)		(1,249,836)
<b>Total comprehensive income for the period attributable to shareholders of the Corporation</b>	<b>3,542,807</b>	<b>527,009</b>	<b>(1,010,606)</b>	<b>-</b>	<b>3,059,210</b>

# **BADGER DAYLIGHTING LTD.**

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

Three months ended March 31, 2011  
(Unaudited – Expressed in Canadian Dollars)

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### **27.3 Reconciliations as at March 31, 2010 (continued)**

The following explains the material adjustments to the consolidated statement of financial position as at March 31, 2010:

#### **Note 1 - Reclassifications**

Under pre-changeover Canadian GAAP, provisions are presented in trade and other payables. Under IFRS, separate disclosure on the face of the consolidated statement of financial position is required for the Corporation's provisions.

#### **Note 2 - Share-based payments**

Under pre-changeover Canadian GAAP, the Funds stock options awards granted to employees were classified as equity-settled share based awards and the fair value of the options was determined at the grant date and recognized on a straight-line basis over the employment period necessary to vest the award.

Under IFRS, the stock option awards are classified as cash-settled share-based awards. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value measurement at each reporting period. Each grant is accounted for on that basis. As a result, the Corporation adjusted its expense for share-based awards to reflect this difference in recognition.

#### **Note 3 – Foreign currency**

Under IFRS, the functional currency of an entity is determined by focusing on the primary economic environment in which it operates and less precedence is placed on factors regarding the financing from and operational involvement of the reporting entity which consolidates the entity in its financial statements. Under pre-changeover Canadian GAAP, equal precedence is placed on all factors. The effect of this change to IFRS resulted in the Corporation's United States subsidiaries having a different functional currency than the Corporation's functional currency. As such, the translation of the results and statement of financial position of the foreign operations into the Corporation's presentation currency requires a translation of all assets and liabilities at the closing rate at each reporting date with all resulting foreign exchange gains or losses recognized in OCI. Revenues and expenses of foreign operations are translated using average monthly foreign exchange rates, which approximate the foreign exchange rates on the dates of the transactions with foreign exchange differences recognized in OCI.

The Corporation reversed the balance of exchange differences on translation of foreign operations within other reserves and recorded a decrease to opening retained earnings.

#### **Note 4 – Deferred tax**

Under pre-changeover Canadian GAAP, the distributions to unitholders were a tax deductible item.

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### **27.4 Restatement of consolidated statement of cash flows from pre-changeover Canadian GAAP to IFRS**

The restatement from pre-changeover Canadian GAAP to IFRS had no significant effect on the reported cash flows generated by the Corporation. The reconciling items between pre-changeover Canadian GAAP presentation and IFRS have no effect on the cash flows generated.