

# How to Inflate and Change your Historical Cash Flow

By

Badger Daylighting

# How to Inflate Cash from Operations 2015

1. Direct analysts to use Cash from Operating Activities before Changes in Working Capital
2. Add back Interest Expense (“Finance Cost”)
3. Add Back Tax Expense
4. Add Back Share Based Compensation
5. Voila! Total impact +\$28,505 for 2015

## BADGER DAYLIGHTING LTD.

### Consolidated Statement of Cash Flows

For the years ended December 31, 2016 and December 31, 2015  
(Expressed in thousands of Canadian Dollars unless stated otherwise)

For the year ended December 31	Notes	2016	2015
<b>Operating activities</b>			
Net profit for the year		28,912	38,488
Non-cash adjustments to reconcile profit from operations to net cash flows:			
Depreciation of property, plant and equipment		43,425	42,366
Amortization of intangible assets		-	1,276
Impairment of Fieldtek oil tank cleaning assets		-	6,508
Deferred income tax		658	(17,992)
Loss (gain) on sale of property plant and equipment		2,410	(159)
Legal settlement		-	5,048
Finance cost	24	4,884	6,048
Current tax expense		17,561	20,747
Share-based compensation expense		6,904	1,710
Unrealized foreign exchange loss (gain)		3	(19)
Cash flow from operating activities before changes in working capital		104,757	104,021
Changes in non-cash working capital		(13,038)	32,870
Current tax paid		(9,740)	(30,403)
Share-based compensation paid in cash		(2,904)	(6,217)
<b>Cash flows from operating activities</b>		<b>79,075</b>	<b>100,271</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(23,488)	(38,967)
Proceeds from sale of property, plant and equipment		567	737
Change in non-cash working capital		874	(1,453)
<b>Cash flows used in investing activities</b>		<b>(22,047)</b>	<b>(39,683)</b>
<b>Financing activities</b>			
Proceeds from issuance of shares on redemption of deferred share units		-	1,780
Repayment of long-term debt		-	(37,426)
Dividends paid		(14,247)	(13,348)
Interest paid	24	(4,950)	(5,914)
Unrealized foreign exchange (gain) loss		(12)	(112)
<b>Cash flows from financing activities</b>		<b>(19,209)</b>	<b>(55,020)</b>
<b>Effect of foreign exchange rate changes on cash</b>		<b>65</b>	<b>271</b>
Net increase in cash		37,884	5,839
Cash, beginning of year		24,991	19,152
<b>Cash, end of year</b>		<b>62,875</b>	<b>24,991</b>

# How to Inflate Cash from Operations 2016

1. True Cash from Operations before working Capital is actually \$75,405
2. Need to exclude:
  1. Finance Cost
  2. Current Tax Expense
  3. Share Based Compensation
3.  $\$104,757 - \$29,349 = \$75,405$

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# Changing Historical Financial Statements

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<b>Operating activities</b>			
Net profit for the year		38,488	53,102
Non-cash adjustments to reconcile profit from operations to net cash flows:			
Depreciation of property, plant and equipment	7	42,366	33,611
Amortization of intangible assets		1,276	1,276
Impairment of Fieldtek oil tank cleaning assets	8	6,508	-
Deferred income tax		(17,992)	5,900
(Gain) on sale of property plant and equipment		(159)	(323)
Legal settlement	9	5,048	-
Unrealized foreign exchange (gain)		(19)	(181)
Unrealized foreign exchange loss on senior secured notes		-	4,020
Unrealized foreign exchange loss on deferred tax		-	3,074
Cash flow from operating activities before non-cash working capital adjustments		75,516	100,479
Change in non-cash working capital		18,707	(16,276)
<b>Cash flows from operating activities</b>		<b>94,223</b>	<b>84,203</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	7	(38,725)	(99,083)
Purchase of property, plant and equipment as work in process		(242)	-
Proceeds from sale of property, plant and equipment		737	541
Change in non-cash working capital		(1,453)	-
<b>Cash flows used in investing activities</b>		<b>(39,683)</b>	<b>(98,542)</b>
<b>Financing activities</b>			
Proceeds from issuance of shares on redemption of deferred share units	15	1,780	-
Proceeds from long-term debt	13	-	121,112
Repayment of long-term debt	13	(37,426)	(82,912)
Dividends paid		(13,348)	(13,332)
Unrealized foreign exchange (gain) loss		(112)	-
Change in non-cash working capital		134	-
<b>Cash flows from financing activities</b>		<b>(48,972)</b>	<b>24,868</b>
<b>Effect of foreign exchange rate changes on cash</b>		<b>271</b>	<b>-</b>
Net increase in cash		5,839	10,529
Cash, beginning of year		19,152	8,623
<b>Cash, end of year</b>		<b>24,991</b>	<b>19,152</b>

# How does Cash from Working capital Change?

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# Manual Reconciliation of BS to CF

## BAD

§CAD 000's	2015	2016	Cash Generated (Used)	Total
Cash	\$24,991.00	\$62,875.00		
Trade and Other receivables	\$83,402.00	\$92,467.00	(\$9,065.00)	
Prepaid expenses	\$2,734.00	\$3,013.00	(\$279.00)	
Inventories	\$3,300.00	\$3,617.00	(\$317.00)	
Income Taxes Receivable	\$9,486.00	\$2,969.00	\$6,517.00	
	\$123,913.00	\$164,941.00		(\$3,144.00)
PP&E	\$313,666.00	\$284,300.00		
Goodwill & Intangibles	\$9,106.00	\$9,106.00		
	\$446,685.00	\$458,347.00		
Trade and Other Payables	\$30,765.00	\$28,999.00	(\$1,766.00)	
Share based plan Liability	\$8,381.00	\$12,381.00	\$4,000.00	
Income Taxes Payable		\$1,206.00	\$1,206.00	
Dividends Payable	\$1,113.00	\$1,224.00	\$111.00	
Total Short Term Liabilities	\$40,259.00	\$43,810.00		\$3,551.00
Long Term Debt	\$103,852.00	\$100,698.00		
Deferred Income Tax	\$34,888.00	\$34,768.00		
	\$138,740.00	\$135,466.00		
Shareholders Capital	\$82,724.00	\$82,724.00		
Contributed Surplus	\$548.00	\$548.00		
AOCI	\$33,218.00	\$29,937.00		
Retained Earnings	\$151,196.00	\$165,862.00		
Total Liabilities and Equity	\$446,685.00	\$458,347.00		

Total Cash Generated (Used) from Working Capital

\$407.00

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# How can Working Capital be in Investing Uses?

- Working Capital changes belong in the Operating Activities section

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# Reconciling Debt and PP&E Balances

\$CAD 000's	2016	\$CAD 000's	2016
Beginning LT Debt Balance (ending FY2015)	\$103,852.00	Beginning PP&E as reported (ending FY2015)	\$313,666.00
Proceeds from Debt from CF Stmt	\$0.00	Depreciation from CF Statement	(\$43,425.00)
Repayments from CF Stmt	\$0.00	Purchase of PP&E from CF Statement	\$23,488.00
Ending Balance as Calculated	\$103,852.00	PP&E Sold from CF Statement	(\$567.00)
		Ending PP&E as calculated	\$293,162.00
Ending LT Debt Balance from BS	\$100,698.00	Ending PP&E as Reported on BS	\$284,300.00
<b>Unexplained Difference</b>	<b>(\$3,154.00)</b>	<b>Unexplained Difference</b>	<b>\$8,862.00</b>

- These combined Unexplained Differences cannot be explained by Currency movements

## Other Comprehensive Income

The company incurred a \$6.4 million loss in other comprehensive income on the foreign currency translation of its US operations because the US dollar weakened toward the end of 2016. Note that the company chose to designate the US dollar denominated senior secured note as a hedge of the net investment in its US operations starting in the first quarter of 2015, and accordingly, offset the exchange differences on translation of the US operations with the opposite exchange differences on the translation of the US dollar-denominated debt. The hedge offset the foreign exchange loss by \$3.2 million, resulting in a total other comprehensive loss of \$3.3 million.

In the fourth quarter of 2016, Badger recorded an unrealized foreign exchange loss of \$2.3 million as a component of other comprehensive income (a cumulative gain on foreign exchange of \$3.2 million for all of 2016) on the foreign currency revaluation of senior secured notes. In the fourth quarter of 2015 there was a foreign exchange loss of \$3.4 million.

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