



Management's Discussion and Analysis
FOR THE YEAR ENDED DECEMBER 31, 2019

March 11, 2020

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and notes thereto of Badger Daylighting Ltd. (the "Company" or "Badger") as at and for the years ended December 31, 2019 and 2018. Readers should also refer to all previous public filings, including the Company's Annual Information Form for the year ended December 31, 2019, which may be found on SEDAR at www.sedar.com.

The audited consolidated financial statements of the Company were prepared by and are the responsibility of Badger's management. The Company's audited consolidated financial statements as at and for the years ended December 31, 2019 and 2018, were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

This MD&A is dated and has been prepared taking into consideration information available to March 11, 2020. All references to "dollars" and "\$" are to the currency of Canada unless otherwise indicated. This MD&A includes forward-looking statements and assumptions. See "Cautionary Statements Regarding Forward-Looking Information and Statements" for additional details.

Overview of Badger

Badger is North America's largest provider of non-destructive excavating services. Badger traditionally works for contractors and facility owners in a broad range of infrastructure industries. The Company's key technology is the Badger hydrovac, which is used primarily for safe digging in congested ground and challenging conditions. The Badger hydrovac uses a pressurized water stream to liquefy the soil cover, which is then removed with a powerful vacuum system and deposited into a storage tank. Badger manufactures its truck-mounted hydrovac units.

Badger's business model involves the provision of excavating services through two distinct business methods: via Badger corporate operations and via operating partners (franchisees in the United States and agents in Canada). For the first method, Badger has established corporate run operations in locations to market and deliver the service in the local area directly. For the second method, Badger's corporate operations work with its operating partners in certain locations to provide hydrovac services to the end user. In this partnership, Badger provides the expertise, the trucks, and North American marketing and administration support. The operating partners deliver the service by operating the equipment and developing their local markets. Badger continues to own the trucks and all work is invoiced by Badger and then shared with the operating partner based upon a revenue sharing formula. In the earlier phase of its growth and development, Badger frequently used operating partners to expand its business into new markets. Badger's operating partners remain an important part of Badger's operations; however, Badger now pursues expansion into new geographic areas primarily through Badger corporate operations.

Financial Highlights

<i>(\$ thousands, except revenue per truck per month ("RPT"), per share and share information)</i>	Year ended December 31,	
	2019	2018⁽³⁾
Revenue:		
Hydrovac service revenue	627,578	587,206
Other revenue	26,704	28,236
Total revenue	654,282	615,442
RPT - Consolidated (mixed currency) ⁽¹⁾	32,442	34,347
RPT - U.S. (U.S. dollars) ⁽¹⁾	34,504	36,799
RPT - Canada (Canadian dollars) ⁽¹⁾	27,248	28,834
Adjusted EBITDA ⁽¹⁾	158,446	161,707
Adjusted EBITDA per share, basic and diluted ⁽¹⁾⁽²⁾	\$4.42	\$4.36
Adjusted EBITDA margin ⁽¹⁾	24.2%	26.3%
Profit before income tax	76,198	97,634
Net profit	59,732	67,817
Net profit per share, basic and diluted ⁽²⁾	\$1.67	\$1.83
Cash flow from operating activities before working capital adjustments	157,689	162,494
Cash flow from operating activities before working capital adjustments per share, basic and diluted ⁽²⁾	\$4.40	\$4.38
Dividends paid	20,065	18,996
Weighted average common shares outstanding ⁽²⁾⁽⁴⁾	35,825,820	37,083,766

⁽¹⁾ See "Non-IFRS Financial Measures" and "Key Financial Metrics and Other Operational Metrics" for additional detail on the definition and calculation of Adjusted EBITDA, Adjusted EBITDA margin, and RPT.

⁽²⁾ Per share, basic and diluted measures calculated by dividing the respective financial measure with the weighted average common shares outstanding for the respective period.

⁽³⁾ IFRS 16 – *Leases* has been adopted on a prospective basis therefore prior year comparatives have not been restated. See "Changes in Accounting Policies" for additional details.

⁽⁴⁾ See "Share Capital" for additional details.

Comparable IFRS Financial Information ⁽¹⁾

<i>(\$ thousands, except per share information)</i>	Year ended December 31,	
	2019	2018
Cash flow from operating activities	113,406	134,382
Cash flow from operating activities per share, basic and diluted ⁽²⁾	\$3.17	\$3.62

⁽¹⁾ Cash flow from operating activities is provided as a comparable measure to cash flow from operating activities before working capital adjustments.

⁽²⁾ Per share, basic and diluted measures calculated by dividing the respective financial measure with the weighted average common shares outstanding for the respective period.

Overview

2019 Annual Financial and Operational Highlights

- Badger generated Adjusted EBITDA of \$158.4 million for the year ended 2019 which was consistent with the 2019 financial outlook. 2019 Adjusted EBITDA was 2% lower compared to Adjusted EBITDA of \$161.7 million in the prior year. Adjusted EBITDA was driven by revenue growth of 6% which was offset by lower gross profit margins and higher general and administrative expenses.
 - Revenue for the year ended 2019 of \$654.3 million was \$38.9 million, or 6%, higher compared to \$615.4 million in the prior year comparative.
 - In the United States (“U.S.”), revenue for the year ended 2019 was US\$386.3 million, US\$27.7 million or 8%, higher than the prior year comparative of US\$358.6 million. Revenue growth in Badger’s U.S. geographic and end use markets was attributable to increased customer demand as a result of the ongoing adoption of hydro excavation as the preferred method for non-destructive excavation.
 - Revenue growth in a select number of U.S. regions was more modest compared to the growth realized in the prior year as a result of the absence of \$22.5 million in emergency response work realized in 2018, (\$20.0 million – Q4; \$2.5 million – Q3), as a result of hurricanes Florence and Michael and the California wildfires, combined with the impact of reduced customer demand due to a combination of slower general customer activity levels and adverse weather conditions experienced in the second and third quarters of 2019 as a result of unusually high levels of precipitation, particularly in the U.S. Upper Midwest.
 - In Canada, revenue for the year ended 2019 was \$141.8 million, \$7.7 million, or 5%, lower than the prior year comparative with revenue of \$149.5 million. The decrease in revenue is due to reduced customer demand in Western Canada, driven by a slowdown in oil and gas activity, and the absence of a number of larger scale projects which benefitted the prior year results, both of which more than offset higher revenues in Eastern Canada.
- Revenue per truck per month (“RPT”) for the year ended 2019 was \$32,442 on a consolidated basis, 6% lower than the prior year of \$34,347. RPT in the U.S. operations was US\$34,504 and for the Canadian operations was \$27,248 compared to US\$36,799 and \$28,834 in the prior year, respectively. The year-over-year change in RPT was driven by:
 - The absence of \$22.5 million in emergency response work realized in 2018 that did not recur in 2019 as previously noted;
 - Modestly lower customer activity levels as noted above; and
 - Reduced revenues and activity levels in Western Canada.
- Gross profit margin for the year ended 2019 was 30.7%, a 40 basis point or 1% decrease from the prior year comparative of 31.1%. Adjusted EBITDA margin for the year ended 2019 was 24.2%, a 210 basis point or 8% decrease over the prior year margin of 26.3%.
 - Gross profit margin in 2019 was impacted by higher labour and labour related costs, primarily due to costs associated with the recruitment and training of new operators and the impact of reduced labour efficiency in a number of markets where revenue growth was modest relative to the prior year.
 - Adjusted EBITDA margin was impacted for the same reasons as gross profit margin, combined with the impact of higher general and administrative expenses due to growth in the business and costs associated with the implementation of Badger’s enterprise resource planning system (“ERP”).
- During the fourth quarter of 2019, Badger successfully rolled out its new ERP system across its corporate operations; with its Operating Partners’ and Franchisees’ going live in January 2020. All components of the

ERP are functioning as intended across all parts of the business. See “Common Business Platform Project” for additional details.

- During 2019, and consistent with the 2019 Financial Outlook, Badger placed 143 net hydrovacs into service, consisting of 199 new and 56 retired units.
 - As at December 31, 2019, Badger had 1,364 hydrovacs compared to 1,221 as at December 31, 2018. See “Capital Resources” for additional details.
- Net profit for the year ended 2019 was \$59.7 million or \$1.67 per share compared to \$67.8 million or \$1.83 per share in the prior year. Net profit for 2019 was impacted by the same items as Adjusted EBITDA, in addition to higher depreciation and amortization expense, offset in part, by reduced income tax expense. Net profit per share on a year-over-year basis benefitted from a 3% reduction in the weighted average common shares outstanding as a result of common shares repurchased under the Company’s normal course issuer bid (“NCIB”) program.
- Effective January 1, 2019, Badger adopted IFRS 16 - *Leases* on a prospective basis. The impact on the 2019 annual results was a reduction in direct operating costs of \$4.4 million with a corresponding improvement to gross profit margin. Offsetting the reduction in direct operating costs was an increase in depreciation expense of \$4.4 million and an increase in finance cost of \$0.4 million. See “Changes in Accounting Policies” for additional details.
- Badger continues to maintain a strong balance sheet. As at December 31, 2019, total debt less cash and cash equivalents was \$177.3 million, with a corresponding total debt less cash and cash equivalents to Compliance EBITDA ratio of 1.2:1, as calculated in accordance with the Company’s syndicated revolving credit facility.
- During 2019, pursuant to the Company’s NCIB, Badger purchased and cancelled 1,579,154 of its common shares at a weighted average price per share of \$38.78. See “Normal Course Issuer Bid” for additional details.
- Badger has made no changes to its 2020 financial outlook. Badger is closely monitoring the global spread of the coronavirus and the impact it may have on the global and North American economies, and consequently the impact on Badger’s operations. Significant uncertainty currently exists across financial and commodity markets, with the potential impact on the general North American economy currently uncertain. At this point in time, it is unclear what the short or long-term impact might be on Badger’s operations. In the event of an economic downturn in Badger’s markets, Badger will proactively reallocate hydrovacs across its branch network in response to regional activity levels, and consistent with historical past practice, will continue to prudently manage capital expenditures to support hydrovac truck growth and manage retirements. See “Financial Outlook” for additional details.
- On March 11, 2020, the Company’s Board of Director’s approved an increase of the dividend from \$0.0475 per common share per month (\$0.57 per common share annualized) to \$0.05 per common share per month (\$0.60 per common share annualized) effective with the March 2020 dividend payable in April 2020.

Financial Outlook

Consistent with the financial outlook provided with the Company’s 2019 third quarter financial results, Badger anticipates that its 2020 Adjusted EBITDA will be in the range of \$175 million to \$195 million, with an expected hydrovac build of between 200 to 230 units and expected retirements of 50 to 70 units.

Badger has made no changes to its 2020 financial outlook. Badger is closely monitoring the global spread of the coronavirus and the impact it may have on the global and North American economies, and consequently the impact on Badger’s operations. Significant uncertainty currently exists across financial and commodity markets, with the potential impact on the general North American economy currently uncertain. At this point in time, it is

unclear what the short or long-term impact might be on Badger's operations. In the event of an economic downturn in Badger's markets, Badger will proactively reallocate hydrovacs across its branch network in response to regional activity levels, and consistent with historical past practice, will continue to prudently manage capital expenditures to support hydrovac truck growth and manage retirements.

The 2020 financial outlook, as noted above, assumes that there will not be a material negative impact on the macro-economic environment in both the U.S. and Canada related to the global outbreak of the coronavirus. In addition, the 2020 financial outlook assumes continued growth in the majority of Badger's end use markets and geographic areas, particularly within its U.S. operations, resulting in an increase in revenue. Badger anticipates that gross profit margin and RPT for 2020 will be consistent with 2019. General and administrative expenses, as a percentage of revenue, for 2020 are anticipated to be lower than in 2019, as costs associated with the ERP implementation are not required in 2020. The 2020 financial outlook does not include the potential benefits, if any, of emergency response work related to large scale natural disasters.

Badger's 2020 financial outlook assumes that there will continue to be ongoing growth in the use of hydrovac for non-destructive excavation as a result of continued customer adoption, particularly within the U.S. markets. Badger expects to see improvements in revenue as a result of the scale of its extensive branch network combined with the ongoing benefits of sales and marketing related activities. The overall macro-economic environment in the U.S. is anticipated to be supportive of ongoing infrastructure and construction activity throughout 2020, with a softer overall macro-economic environment anticipated in Canada, particularly in Western Canada. Oil and gas activity levels are anticipated to be lower than 2019 levels within Badger's Canadian and U.S. operations. Badger continues to see organic growth opportunities in the majority of its markets, although the ability to capture these opportunities may be partially limited by the availability of trained operators as the market for labour, in certain regions, continues to be challenging.

Badger's 2019 Adjusted EBITDA of \$158.4 million was consistent with the 2019 financial outlook provided in the third quarter of 2019 of \$155 million to \$170 million. During 2019, Badger placed 199 new hydrovacs into service while retiring 56 units, both of which were consistent with the 2019 outlook.

Results of Operations for the year ended December 31, 2019

Revenues

Revenues of \$654.3 million for the year ended 2019 were 6% higher than the \$615.4 million generated during the prior year. Throughout 2019, Badger realized improved demand for hydrovac services, particularly in its U.S. markets. The improvements in revenue is attributable to the following:

- Revenue in the U.S. operations increased by 8% to US\$386.3 million for the year ended 2019 compared to US\$358.6 million in the prior year. Items impacting revenue within the U.S. operations include:
 - Continued revenue growth attributable to increased activity levels from both new and existing customers across the majority of Badger's U.S. geographic and end use market segments. Badger continues to experience revenue growth in the majority of its U.S. markets, as the benefits and potential uses for hydrovac technology continue to be understood and adopted by Badger's existing and new customer base.
 - Revenue growth in a select number of regions was lower than the prior year as a result of reduced customer demand due primarily to a combination of slower general activity levels, the impact of adverse weather conditions in the current year, and the absence of \$22.5 million in emergency

response work realized in 2018 as a result of hurricanes Florence and Michael and the California wildfires.

- Operating conditions in a select number of regions during 2019 were negatively impacted by record or near record precipitation levels experienced in the second quarter of 2019, particularly impacting operations in the U.S. Upper Midwest, combined with the disruption of Hurricane Dorian, both of which resulted in lost work days due to delays in various construction projects. In particular, Hurricane Dorian resulted in temporary operational inefficiencies throughout the majority of the U.S. East Coast, resulting in labour inefficiencies, as many construction projects were temporarily halted in advance of what was originally predicted to be a large scale weather event for the majority of the U.S. East Coast.
- Average hydrovac rates in the U.S. operations were consistent to modestly higher than the prior year across the majority of markets.
- U.S. revenue converted to Canadian dollars was \$512.5 million in the year ended 2019, compared to \$465.9 million in the prior year, a 10% increase. The weighted average foreign currency rate used in the translation of U.S. dollar revenues to Canadian dollars for 2019 was CDN\$1.33 to US\$1.00, compared to CDN\$1.30 to US\$1.00 in the prior year.
- Revenue in the Canadian operations of \$141.8 million was \$7.7 million, or 5%, lower than the prior year with revenue of \$149.5 million. The decrease in revenue is due to reduced customer demand in Western Canada, driven by a slowdown in oil and gas activity, and the absence of a number of larger scale projects which benefitted the prior year results. Reduced revenue in Western Canada was offset, in part, by higher revenues in Eastern Canada due to a combination of increased customer demand and improved operational performance.
 - Average hydrovac rates in the Canadian operations were consistent to modestly higher than the prior year across the majority of markets.
- Revenue growth in both the U.S. and Canadian operations was limited in certain regions due to the availability of trained operators.
- Other services revenue for 2019 was \$26.7 million, \$1.5 million lower than the prior year of \$28.2 million due to modest reductions in customer demand related to Badger's non-hydrovac related service lines such as sewer flushing and industrial tank cleaning.

Consolidated RPT for the year ended 2019 was \$32,442 compared to \$34,347 in the prior year. RPT in the U.S. was US\$34,504 compared to US\$36,799 and in Canada was \$27,248 compared to \$28,834 in the prior year, respectively. The reduction in RPT in the U.S. was primarily due to the absence of \$22.5 million in emergency response work realized in the prior year and modestly lower customer activity levels relative to the prior year as previously noted. Badger successfully integrated an additional 143 net new hydrovacs into its fleet during 2019 while maintaining a strong RPT.

Badger continues to actively focus on optimizing its fleet in order to drive continued operational and financial improvements by responding to changes in customer demand across its entire branch network. Badger is uniquely positioned to be able to respond to changes in customer service requirements due to its large hydrovac fleet and extensive branch network.

For additional information on RPT, refer to the definition under the "Key Financial Metrics and Other Operational Metrics" section.

Direct Costs

Direct costs for the year ended 2019 were \$453.3 million compared to \$424.2 million in the prior year comparative quarter. On a dollar basis, the increase in direct costs was driven by higher activity levels attributable to increased customer demand. As a percentage of revenue, direct costs for 2019 of 69.3% were modestly higher than the prior year comparative of 68.9 %.

Labour related costs as a percentage of revenue were higher than the prior year as a result of an increase in headcount associated with operators and non-operator administrative support functions. Badger continues to actively recruit and train operators across its entire branch network in anticipation of continued growth in the business. Badger strives to actively manage its operator and non-operator labour and related costs, balancing the need for trained operators in advance of customer demand. In addition to the increase in costs associated with the recruitment and training of operators, labour as a percentage of revenue was negatively impacted by reduced labour efficiency in a number of geographic markets as a result of regional adverse weather conditions noted in the discussion of revenues. Non-operator labour included in direct costs, which includes functions such as environmental, health and safety and sales and marketing, were modestly higher than the prior year quarter on a percentage of revenue basis due primarily to ongoing growth in the business. Offsetting higher general labour costs was a reduction in short-term incentive plan costs due primarily to a reduction in the growth rate of Adjusted EBITDA which is a core driver of the Company's incentive plan programs. Costs related to fuel, insurance and repairs and maintenance were consistent with the prior year as a percentage of revenue. Also impacting direct costs was the adoption of IFRS 16 – *Leases*, details of which are summarized below.

Bad debt expense was \$0.6 million for the year ended 2019, compared to \$9.5 million in the prior year. The change in bad debt expense is the result of the prior year's bad debt expense including a provision related to a Chapter 11 bankruptcy filing by a large utility customer in the United States combined with a collection issue associated with a single customer on a large scale, multi-location project involving multiple subcontractors. During 2019, the Company sold the receivable related to the large utility customer, resulting in a recovery of approximately 90% of the gross value of the previously provided for receivables. No further financial impact is anticipated related to the sale of these receivables. Excluding the impact of the Chapter 11 filing and the other collection issue noted above, bad debts as a percentage of revenues were modestly higher than the prior year.

As disclosed in the first quarter of 2019, Badger prospectively adopted IFRS 16 – *Leases*. As a result of the prospective adoption of this standard, Badger's 2019 direct costs were approximately \$4.4 million lower than the prior year comparative period with a corresponding improvement to gross profit. Offsetting the reduction in direct costs was an increase in depreciation expense of approximately \$4.4 million and an increase in finance cost of \$0.4 million. For additional details on the impact of the adoption of this standard see "Changes in Accounting Policies."

Badger continues to focus on active expense management and fleet optimization to mitigate higher costs due to general inflation and costs attributable to the growth in Badger's overall business in functions such as human resources, recruitment, business development, fleet, information technology and health and safety activities. Investments made in these areas of the business have resulted in increased scale within each of these functions and are essential to support increased activity levels. With the investments in these areas now completed, combined with the ongoing impact of the Common Business Platform project, the Company will aggressively seek to capture the operational benefits of the increased scale while also realizing a reduction in certain operating costs as a percentage of revenue.

Gross Profit

Gross profit for the year ended 2019 was \$201.0 million compared to \$191.3 million in the prior year with a corresponding gross profit margin of 30.7% for the year ended 2019 compared to 31.1% in 2018. Gross profit margin in the U.S. operations was 31.2% for the year ended 2019 compared to 32.2% for the year ended 2018, with gross profit margin in the Canadian operations of 29.2% for the year ended 2019 compared to 27.4% in the prior year.

Gross profit margin in the U.S. operations was impacted by higher costs associated with the recruitment and training of operators, higher headcount of non-operator support functions and reduced labour efficiency, the absence of emergency response work realized in the prior year, offset in part by the impact of the adoption of IFRS 16 and reduced short-term incentive plan costs, all of which were previously discussed. Gross profit margins in Canada were modestly higher than the prior year as operational improvements in the Eastern region and the impact of the adoption of IFRS 16 more than offset the impact of a challenging Western region. As previously noted, average hydrovac rates were consistent to modestly higher across the majority of the U.S. and Canadian markets compared to the prior year comparative, and as such, did not have a significant impact on gross profit.

General and Administrative Expenses

General and administrative expenses for the year ended 2019 were \$42.6 million compared to \$29.6 million in the prior year. As a percentage of revenue, general and administrative expenses were 6.5% in 2019 compared to 4.8% in the prior year comparative. The increase in general and administrative expenses as a percentage of revenue, and on a total dollar basis, is primarily the result of activities being undertaken to augment the administrative infrastructure in order to support the overall growth in Badger's business combined with the impact of operating both the legacy and new ERP systems. Incremental costs relate to activities, directly and indirectly, attributable to investments in technology, business process improvement initiatives, the Common Business Platform project, and the establishment of Badger's centralized hydrovac operator training center ("Badger University").

More specifically, general and administrative expenses in 2019 included incremental costs that were indirectly associated with the Common Business Platform project such as investments in information technology infrastructure which were not contemplated as part of the original project plan, but which were completed in conjunction with the project for efficiency purposes. In addition, incremental, but temporary costs associated with additional administrative resources to backfill internal positions, as well as support the current and future growth of the business, were drivers of the increase in general and administrative expenses.

Throughout 2020, Badger will seek to aggressively, but prudently, reduce temporary personnel and consulting costs directly attributable to the Common Business Platform project, with the objective of general and administrative expenses as a percentage of revenue returning to normalized levels throughout 2020. Based on the current status of the ERP implementation and the related cost reduction initiatives, Badger is targeting exiting 2020 with an annualized run rate for general and administrative expenses of approximately 5% of revenue, while continuing to focus on meeting its long-term target of 4% of revenue over time.

Depreciation of Property, Plant and Equipment and Amortization of Intangible Assets

Depreciation and amortization expense was \$63.5 million for the year ended 2019 compared to \$49.0 million in the prior year. The increase in depreciation and amortization expense is the result of capital expenditures incurred during the current year combined with the impact of the adoption of IFRS 16. The adoption of IFRS 16 resulted in an increase of depreciation expense of approximately \$4.4 million for 2019.

Share-based Compensation Expense

Share-based compensation expense was \$11.0 million for the year ended 2019 compared to \$10.3 million for the year ended 2018. The increase in the expense is due primarily to the increase in the market value of Badger's common shares during 2019 combined with the impact of the normal course vesting of previously issued long-term incentive plan ("LTIP") grants. Share-based compensation expense will fluctuate based on the effects of the movement in Badger's share price, combined with the impact of normal course vesting of previously issued LTIP grants and the issuance, if any, of new LTIP grants.

Gain or Loss on Sale of Property, Plant and Equipment

Loss on the sale of property, plant and equipment for the year ended 2019 was \$0.1 million compared to \$0.7 million in the prior year comparative. The loss on the sale of property, plant and equipment is the result of the residual value of units retired and disposed of being greater than the proceeds on disposal. Gains or losses on the disposition of property, plant and equipment will vary depending on the timing and type of equipment being disposed of in a respective year.

Finance Cost

Finance costs, which consist primarily of interest on the Company's senior secured notes, syndicated revolving credit facility ("Credit Facility"), standby fees on the Credit Facility and finance costs associated with lease liabilities, were \$6.9 million for 2019, \$2.0 million higher than the prior year comparative of \$4.9 million. The increase in finance costs is primarily due to interest costs associated with higher debt obligations outstanding on the Company's Credit Facility, combined with interest costs associated with lease liabilities which have been recognized effective January 1, 2019, in accordance with the prospective adoption of IFRS 16.

As at December 31, 2019, the Company's debt obligations, excluding the impact of normal course operating leases and outstanding letters of credit, consisted of \$67.2 million drawn on the Company's Credit Facility, the US\$75.0 million senior secured notes and \$17.2 million in lease liabilities, all of which are further described herein.

Income Tax

Total income tax expense for the year ended 2019 was \$16.5 million compared to \$29.8 million in the prior year comparative. Included in the 2019 total income tax expense is current income tax expense of \$2.7 million and deferred income tax expense of \$13.8 million, compared to current income taxes of \$12.8 million and deferred income tax expense of \$17.0 million in the prior year comparative quarter.

Current income tax expense of \$2.7 million is comprised of \$6.3 million in U.S. current income taxes (2018 – \$8.8 million) and \$3.6 million in Canadian current income tax recoveries (2018 – \$4.0 million expense). The decrease in U.S. and Canadian current income tax expense is due to the absence of the finalization of historical transfer pricing initiatives included in the prior year's current income tax expense combined with reduced taxable income in both the U.S. and Canada.

Deferred income tax expense for the year ended 2019 was \$13.8 million compared to \$17.0 million in the prior year comparative quarter. Similar to the reduction in current income tax expense, the reduction in deferred income tax expense is due to the absence of the finalization of historical transfer pricing initiatives included in the prior year's determination of deferred income taxes combined with a reduction in taxable income in both the U.S. and Canada.

Net Profit

Net profit for the year ended 2019 was \$59.7 million, an \$8.1 million decrease compared to net profit of \$67.8 million in the prior year. The change in net profit is due to revenue growth and higher gross profit, offset by higher depreciation and amortization expense, higher general and administrative expenses, and reduced income tax expense, all of which is fully described previously in this MD&A.

Other Comprehensive Income

Total other comprehensive income (loss) ("OCI"), which includes the effect of translating U.S. operations into Canadian dollars, and the offsetting translation of U.S. dollar denominated senior secured notes into Canadian dollars that are designated as a hedge of the U.S. operations, resulted in an OCI loss of \$14.1 million for the year ended 2019, compared to OCI income of \$18.2 million in 2018. The change in OCI in 2019 is the result of the Canadian dollar strengthening relative to the U.S. dollar throughout the year and as at December 31, 2019, as compared to December 31, 2018. OCI has no impact on Badger's cash flow from operations or Adjusted EBITDA.

Liquidity and Dividends

Cash flow from operating activities for the year ended 2019 was \$113.4 million, compared to the prior year of \$134.4 million. Cash flow from operating activities was impacted by lower net profit after the impact of certain non-cash adjustments, combined with the impact of reduced income tax recoveries and higher share-based plan payments. See the consolidated statement of cash flows contained within Badger's audited consolidated financial statements for additional details. Cash flow from operating activities before non-cash working capital and other adjustments was \$157.7 million in the year ended 2019, consistent with the prior year comparative of \$162.5 million as Adjusted EBITDA and other non-cash items were consistent with the prior year.

Working capital is a normal course component of Badger's business. Changes in working capital levels may result from items such as increasing or decreasing revenue, the seasonality in the operations, the timing of the collection of receivables and the payment of payables, the timing of capital expenditures, and the impact of fluctuations in foreign currency exchange rates. Working capital totaled \$87.4 million at December 31, 2019, compared to \$143.4 million at December 31, 2018. The change in working capital as at December 31, 2019, was due in part, to reduced cash and cash equivalents, due largely to common shares repurchases made under the Company's NCIB. Working capital was also impacted by the reclassification of \$32.5 million (US\$25.0 million) of the Company's long-term debt to a current obligation in accordance with the repayment terms of the Company's senior secured notes.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totaled \$182.2 million at December 31, 2019, \$22.4 million higher than the balance at December 31, 2018, of \$159.8 million. The increase in trade receivables and other receivables is a result of revenue growth realized in 2019 and the timing of cash collections compared to the prior year, offset in part, by the impact of a weaker U.S. dollar on the revaluation of U.S. denominated receivables. Included in total trade and other receivables at

December 31, 2019, was \$3.0 million in accrued revenue, compared to \$3.7 million at December 31, 2018. Accrued revenue is recognized only when it meets the requirements of Badger's revenue recognition policy.

As at December 31, 2019, 80% of Badger's trade receivables were aged 90 days or less, compared to 81% at December 31, 2018.

The Company uses its cash and cash equivalents to build additional hydrovac units, to fund day-to-day operations, pay dividends, repurchase common shares and for general corporate purposes. Badger assesses its need for general liquidity based on its cash flow from operating activities combined with the financial capacity available under its Credit Facility. Badger's access to liquidity, through a combination of cash flows from operating activities and its existing Credit Facility, is sufficient to meet the existing operational and capital expenditures of the business. Cash flows from operating activities are subject to variations and risks associated with the normal course operations of the business, including the impact of the seasonality within the business and the normal course timing and collection of working capital. See "Financing" for a summary of the key terms, conditions and unutilized capacity of the Company's Credit Facility.

Badger is restricted from declaring dividends if it is in breach of the covenants governing its Credit Facility or senior secured notes. As at the date of this MD&A, the Company is in compliance with all debt covenants and is able to fully use its Credit Facility as well as declare dividends. The Company does not maintain a credit rating.

Capital Resources

Investing

Badger invested \$114.9 million on property, plant and equipment, including light-duty trucks, for the year ended 2019, compared to \$89.2 million in 2018. The majority of capital expenditures for 2019, as detailed below, related to the production of hydrovacs.

For the year ended 2019, Badger completed 199 hydrovacs, compared to 191 hydrovacs in 2018.

Capital Expenditures

(\$ thousands)	Year ended December 31,	
	2019	2018
Hydrovac completed units and work-in-progress ⁽¹⁾⁽²⁾	98,830	81,083
Other vehicles and trailers	7,551	7,286
Buildings	148	28
Other	3,414	790
Total capital expenditures of property, plant and equipment	109,943	89,187
Upfront payments for right-of-use assets ⁽³⁾	4,913	-
Total capital expenditures	114,856	89,187

⁽¹⁾ Total work-in-progress ("WIP"), including chassis and WIP on other vehicles, recognized on Badger's balance sheet as at December 31, 2019, and 2018, was \$22.3 million and \$12.2 million, respectively. The net change in WIP for the year ended 2019 was a cash outflow of \$10.1 million and for the year ended 2018 was a net outflow of \$0.3 million. The net change in WIP is included in hydrovac completed units and work-in-progress in the above table.

⁽²⁾ WIP includes hydrovacs currently being manufactured and chassis that will be used in future hydrovac builds.

⁽³⁾ Upfront payments for right-of-use assets relate to the Company's leasing of light-duty trucks. See "IFRS 16 - Leases" for additional details.

	Completed Hydrovacs	Average Manufacturing Costs
2019	199	\$419,000
2018	191	\$396,000
2017	157	\$399,000
2016 ⁽¹⁾	55	\$375,000
2015	63	\$390,000
2014	221	\$351,000
2013	175	\$338,000
2012	125	\$339,000

⁽¹⁾ The average manufacturing cost for 2016 includes the impact of utilizing 16 refurbished hydrovacs. As previously disclosed, during 2016 16 hydrovacs were refurbished due to engines that proved to be unreliable. Excluding the impact of the refurbished equipment, the average manufacturing cost for 2016 would have been \$412,000.

Finished hydrovacs, and the related total cost included in the summary of capital expenditures, includes the cost to manufacture a hydrovac plus additional non-refundable sales taxes, excise taxes and costs to place the unit into service, such as shipping. Certain of these costs are dependent on the region where the hydrovac is put into service.

For 2019, Badger's average manufacturing cost was \$419,000 compared to \$396,000 in 2018. The increase in the average manufacturing cost in 2019 compared to the 2018 manufacturing cost was due to higher chassis costs and other direct material costs combined with general inflationary increases.

The cost to build a hydrovac will fluctuate on an annual basis due to factors such as: the number of hydrovac units built in the Red Deer manufacturing facility; the cost of chassis; labour and materials; and, the impact of foreign currency rates as certain materials are denominated or otherwise influenced by foreign currency exchange rates.

See "Financial Outlook" for details on Badger's 2020 anticipated hydrovac build and retirements.

Common Business Platform Project

In fiscal 2018, the Company initiated a process to upgrade and standardize its legacy information technology systems into a single ERP, referred to as the Common Business Platform. In conjunction with the ongoing business process standardization initiatives, the Common Business Platform will enhance Badger's operational and financial reporting processes, providing the business tools and information technology foundation to facilitate future growth. The Common Business Platform will also allow for the implementation and integration of new technologies, ensuring the consistency of operations across all aspects of the Company.

On October 1, 2019, the ERP underwent a successful go-live in the Western operating region, with the Central and Eastern operating regions realizing successful go-live's throughout the fourth quarter of 2019. As at December 31, 2019, the ERP system was operating across all corporate locations with go-live's related to Badger's franchisees and operating partners completed in January 2020. Consistent with the Company's ongoing internal improvement and business process standardization initiatives, during fiscal 2020, Badger will focus on augmenting the benefits of the ERP through the continued streamlining and integration of operational processes to drive operational and financial improvements. As the implementation and refinement of the system allows, Badger will continue to seek opportunities to centralize certain administrative functions, ensuring that the operational and financial benefits that the ERP project will drive are captured in a timely manner. Badger will seek to aggressively, but prudently, reduce temporary personnel and consulting costs directly attributable to the project throughout 2020.

Total expenditures incurred on the project during 2019 were \$21.1 million, with \$3.8 million included in general and administrative expenses and \$17.3 million capitalized and categorized as a component of intangible assets. On a cumulative basis, total expenditures incurred on the project are \$26.7 million, with \$4.0 million included in general and administrative expenses and \$22.7 million capitalized and categorized as a component of intangible assets. Total costs, as originally defined in the initial project plan, were modestly higher than the estimated total costs of \$20 to \$25 million due largely to higher information technology infrastructure and consulting costs. In addition, as disclosed in the third quarter of 2019, an increase in general and administrative costs which are indirectly associated with the project of approximately \$10 million were incurred throughout 2019. Indirect costs were primarily related to additional information technology infrastructure upgrades, implementation support and modest changes to the overall scope of the project. As noted above, Badger is actively seeking to reduce incremental indirect costs for 2020 associated with the project on an aggressive but prudent basis. These costs are factored into Badger's current 2020 financial outlook.

Effective October 1, 2019, in conjunction with the go-live of the ERP, the majority of expenditures related to the project were expensed and included in both Adjusted EBITDA and net profit. Badger does not anticipate any material capital costs directly related to the ERP in 2020.

Financing

Syndicated Revolving Credit Facility

On September 30, 2019, the Company completed an increase and extension of its Credit Facility with a syndicate of five lenders. The updated Credit Facility, which is \$300.0 million in aggregate Canadian dollars, allows for borrowings in either Canadian or U.S. dollars, providing Badger with the administrative flexibility to borrow in the functional currency in both its Canadian and the U.S. operations. The Credit Facility, which is a five-year term, matures on September 30, 2024. Badger has the flexibility to expand the Credit Facility, subject to approval by the lenders, by an additional \$150.0 million Canadian dollars. Badger maintains the Credit Facility for general corporate and liquidity purposes, in addition to financing requirements, if any, related to Badger's capital expenditure requirements. The increase and extension of the Credit Facility completed on September 30, 2019, has no impact on the Company's existing senior secured notes, including the respective financial covenant ratios and maturity dates, all of which is detailed below.

The Credit Facility bears interest, at the Company's option, at either the bank's prime rate plus a tiered set of basis points or bankers' acceptance ("BA")/London interbank offered rate ("LIBOR") also with a tiered structure. A standby fee is also required on the unused portion of the Credit Facility on a tiered basis. The prime rate tiers range between zero and 175 basis points. The BA/LIBOR tiers range from 120 to 300 basis points. The standby fee tiers range between 24 and 60 basis points. All of the tiers are based on the Company's Total Debt to Compliance EBITDA ratio. Stand-by fees are expensed as incurred.

The Credit Facility is collateralized by a general security interest over the Company's assets, property and undertaking, present and future. The Credit Facility requires that the Company maintain a Total Debt to Compliance EBITDA ratio of no greater than 4.0:1.

As at December 30, 2019, the Company had \$67.2 million outstanding on its Credit Facility (December 31, 2018 - nil) and had issued letters of credit of \$4.4 million (December 31, 2018 - \$3.9 million). The outstanding letters of credit, which reduce the amount of available credit under the Credit Facility, support the Company's U.S. insurance program and certain other performance bonds.

As at December 31, 2019, the Company had available \$228.4 million (December 31, 2018 - \$143.8 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Senior Secured Notes

On January 24, 2014, Badger closed a private placement of senior secured notes. The notes, which rank pari passu with the Credit Facility, have a principal amount of US\$75.0 million (\$97.4 million Canadian equivalent as at December 31, 2019) and an interest rate of 4.83% per annum and mature on January 24, 2022. The Canadian dollar equivalent on January 24, 2014, was \$82.9 million. Amortizing principal repayments of US\$25.0 million are due under the notes on January 24, 2020, January 24, 2021, and January 24, 2022. Interest is paid semi-annually in arrears. The first repayment of US\$25.0 million, as required on January 24, 2020, was completed in the normal course, utilizing the Company's Credit Facility to facilitate the repayment.

The senior secured notes are collateralized by a general security interest over the Company's assets, property and undertaking, present and future. The senior secured notes require that the Company maintain a Total Debt to Compliance EBITDA ratio of no greater than 2.75:1.

Lease Liability

As at December 31, 2019, the Company had \$17.2 million in lease liabilities (December 31, 2018 – nil) related primarily to operating and administrative building lease arrangements. There is no lease liability associated with the Company's light-duty vehicle leases as the full consideration of the underlying lease is paid at the inception of the lease.

There is no comparative lease liability as at December 31, 2018, as the Company has adopted IFRS 16 effective January 1, 2019, on a prospective basis. For additional details on the impact of the adoption of this standard see "Changes in Accounting Policies".

Compliance

Under the terms of the Credit Facility and the senior secured notes, the Company must comply with certain financial and non-financial covenants, as defined by the respective credit agreements. The Company's significant financial covenants and the summary of the compliance with these covenants are detailed in the summary below.

Select Financial covenants ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	December 31, 2019	December 31, 2018	Threshold
Total Debt to Compliance EBITDA Credit Facility	1.2:1	0.6:1	4.00:1 max
Total Debt to Compliance EBITDA Senior Secured Notes	1.2:1	0.6:1	2.75:1 max
Interest Coverage Ratio Credit Facility	21.6:1	30.9:1	3.00:1 min
Interest Coverage Ratio Senior Secured Notes	21.2:1	30.9:1	3.00:1 min
Tangible Net Worth	\$275.7 million	\$314.1 million	\$199.0 million

(1) See "Non-IFRS Financial Measures" for additional details on the calculation of Total Debt, Compliance EBITDA and Tangible Net Worth.

(2) Total Debt to Compliance EBITDA Credit Facility as at December 31, 2019, calculated as \$177.3 million in Total Debt divided by \$149.1 million of Compliance EBITDA and for December 31, 2018, calculated as \$96.2 million in Funded Debt divided by \$151.5 million of Compliance EBITDA.

(3) Total Debt to Compliance EBITDA senior secured notes as at December 31, 2019, calculated as \$177.3 million in Total Debt divided by \$146.6 million of Compliance EBITDA and for December 31, 2018, calculated as \$96.2 million in Funded Debt divided by \$151.5 million of Compliance EBITDA.

(4) The Interest Coverage Ratio Credit Facility is calculated as Compliance EBITDA divided by interest expense. For the twelve months ended December 31, 2019, calculated as \$149.1 million in Compliance EBITDA divided by \$6.9 million in interest expense and for the twelve months ended December 31, 2018, calculated as \$151.5 million in Compliance EBITDA divided by \$4.9 million in interest expense. Interest expense is calculated in accordance with IFRS on a trailing 12-month basis.

(5) The Interest Coverage Ratio senior secured notes is calculated as Compliance EBITDA divided by interest expense. For the twelve months ended December 31, 2019, calculated as \$146.6 million in Compliance EBITDA divided by \$6.9 million in interest expense and for the twelve months ended December 31, 2018, calculated as \$151.5 million in Compliance EBITDA divided by \$4.9 million in interest expense. Interest expense is calculated in accordance with IFRS on a trailing 12-month basis.

Throughout 2019, and as at December 31, 2019, the Company was in compliance with the above noted covenants and all other covenants. For additional details on the Credit Facility and the senior secured notes, including the financial and non-financial covenants, see the Company's 2019 audited consolidated financial statements and the Company's 2019 Annual Information Form.

Off-Balance Sheet Arrangements

As at December 31, 2019, and December 31, 2018, the Company did not have any material off-balance sheet arrangements.

Share Capital

As at December 31, 2019, the number of common shares outstanding was 34,933,738 (December 31, 2018 – 36,582,738) and the weighted average common shares outstanding were 35,825,820 (December 31, 2018 – 37,083,766).

As at March 11, 2020, the number of common shares outstanding was 34,878,738. Badger does not currently have any material financial instruments which can be converted into additional common shares.

See the Company's 2019 audited consolidated financial statements and "Normal Course Issuer Bid" for additional details on changes to share capital.

Normal Course Issuer Bid

On May 13, 2019, the Board of Directors approved the Company to enter into a NCIB program of up to 2,000,000 common shares upon the expiration of the previous NCIB on May 14, 2019. On May 16, 2019, the Toronto Stock Exchange accepted the notice filed by the Company to implement an updated NCIB program. The Company may acquire up to 2,000,000 common shares during the period commencing on May 21, 2019, and ending May 20, 2020, or such earlier date on which the Company completes its purchases of common shares under the NCIB, or terminates the NCIB at its option.

The Company believes that from time-to-time, the market price of its common shares may not fully reflect the underlying value of its business, and that purchases of common shares for cancellation under the NCIB may provide an opportunity to enhance long-term total shareholder value.

For the year ended 2019, pursuant to the NCIB, the Company purchased and cancelled 1,579,154 common shares at a weighted average price per share of \$38.78. In addition, the Company purchased 10,000 common shares in the last two trading days of 2019 at a weighted average price per share of \$35.35 which were settled and cancelled subsequent to December 31, 2019.

On a cumulative basis, since May 21, 2019 to the period ended December 31, 2019, the Company has purchased and cancelled 945,700 common shares at a weighted average price per share of \$42.33 under the current NCIB.

On a cumulative basis, since the fourth quarter of 2018 to the period ended December 31, 2019, the Company has purchased and cancelled 2,207,768 common shares at a weighted average price per share of \$36.84.

For the period January 1, 2020, through March 11, 2020, the Company purchased and cancelled 45,000 common shares at a weighted average price per share of \$34.82.

Contractual Obligations and Other Commitments

The Company anticipates using its cash and cash equivalents, future operating cash flows and the financial capacity available under its Credit Facility to fund its contractual obligations. The Company had the following contractual obligations and commitments at December 31, 2019:

<i>(\$ thousands)</i>	2020	2021	2022	2023	2024	Thereafter	Total
Operating leases ⁽¹⁾	798	770	693	496	460	376	3,593
Service contract ⁽²⁾	1,989	1,972	1,972	493	-	-	6,426
Senior secured note interest ⁽³⁾	3,921	2,352	784	-	-	-	7,057
Senior secured note repayment ⁽⁴⁾	32,470	32,470	32,470	-	-	-	97,410
Purchase commitments ⁽⁵⁾	32,253	-	-	-	-	-	32,253
Total	71,431	37,564	35,919	989	460	376	146,739

(1) Operating leases include buildings and office space.

(2) Contract with third party service provider for information technology services related to the Company's ERP.

(3) Senior note interest is the interest due on the Company's senior secured notes at 4.83% per annum paid semi-annually in arrears translated into Canadian dollars at the December 31, 2019, closing U.S. to Canadian foreign currency exchange rate. See notes to the audited consolidated financial statements for additional details.

(4) Senior note repayment is the principal amounts of the senior secured notes translated into Canadian dollars at the December 31, 2019, closing U.S. to Canadian foreign currency exchange rate. See notes to the audited consolidated financial statements for additional details.

(5) Purchase commitments include amounts related to manufacturing operations, the purchase of light-duty trucks and other committed capital expenditures.

Selected Annual Financial Information ⁽¹⁾

<i>(\$ thousands, except per share amounts)</i>	2019	2018	2017
Revenue	654,282	615,442	496,808
Net profit	59,732	67,817	65,852
Net profit per share, basic and diluted	\$1.67	\$1.83	\$1.77
Total assets	668,962	603,890	501,348
Total non-current liabilities	207,218	155,724	128,146
Dividends paid	20,065	18,996	15,433
Dividends per share	\$0.56	\$0.51	\$0.42

(1) Selected annual financial information in the above table as per the audited consolidated financial statements prepared in accordance with International Financial Reporting Standards.

During the years in the above table, financial results and related financial information were impacted by the following factors and trends:

- General improvements in economic growth and overall macro-economic conditions in both the U.S. and Canada;
- Increased usage and demand for Badger's hydrovac services, particularly in the U.S., which is Badger's largest market. The increase in customer demand has resulted in an increase in revenues, gross dollar direct costs, general and administrative costs and Adjusted EBITDA;
- Impact of unusual and/or non-typical weather conditions such as natural disasters, general precipitation levels or extreme winter weather conditions which may impact the timing and level of customer demand;
- Additional investments related to the manufacture of hydrovac units and supporting an increase in working capital associated with the underlying growth in the business;
- The execution and implementation of Badger's Common Business Platform/ERP project;
- Finalization of income tax benefits associated with transfer pricing activities for the 2009 through 2013 taxation years in 2018; and
- Updated U.S. income tax legislation, effective Dec. 22, 2017, impacted Badger's 2018 current income tax expense.

Fourth Quarter Results

Financial Highlights

(\$ thousands, except RPT, per share and share information)		Three months ended December 31,	
		2019	2018 ⁽³⁾
Revenue:			
Hydrovac service revenue		155,494	171,516
Other revenue		7,221	7,093
Total revenue		162,715	178,609
RPT - Consolidated (mixed currency) ⁽¹⁾		31,075	37,837
RPT - U.S. (U.S. dollars) ⁽¹⁾		32,893	40,859
RPT - Canada (Canadian dollars) ⁽¹⁾		26,408	30,544
Adjusted EBITDA ⁽¹⁾		35,839	47,858
Adjusted EBITDA per share, basic and diluted ⁽¹⁾⁽²⁾		\$1.02	\$1.29
Adjusted EBITDA margin ⁽¹⁾		22.0%	26.8%
Profit before income tax		17,814	31,947
Net profit		15,913	23,468
Net profit per share, basic and diluted ⁽²⁾		\$0.45	\$0.63
Cash flow from operating activities before working capital adjustments		35,596	48,936
Cash flow from operating activities before working capital adjustments per share, basic and diluted ⁽²⁾		\$1.02	\$1.32
Dividends paid		5,001	5,009
Weighted average common shares outstanding ⁽²⁾⁽⁴⁾		35,060,260	37,033,572

(1) See “Non-IFRS Financial Measures” and “Key Financial Metrics and Other Operational Metrics” for additional detail on the definition and calculation of Adjusted EBITDA, Adjusted EBITDA margin, and RPT.

(2) Per share, basic and diluted measures calculated by dividing the respective financial measure with the weighted average common shares outstanding for the respective period.

(3) IFRS 16 – *Leases* has been adopted on a prospective basis therefore prior year comparatives have not been restated. See “Changes in Accounting Policies” for additional details.

(4) See “Share Capital” for additional details.

Comparable IFRS Financial Information ⁽¹⁾

(\$ thousands, except per share information)		Three months ended December 31,	
		2019	2018
Cash flow from operating activities		42,445	67,196
Cash flow from operating activities per share, basic and diluted ⁽²⁾		\$1.21	\$1.81

(1) Cash flow from operating activities is provided as a comparable measure to cash flow from operating activities before working capital adjustments.

(2) Per share, basic and diluted measures calculated by dividing the respective financial measure with the weighted average common shares outstanding for the respective period.

2019 Fourth Quarter Financial and Operational Highlights

- Badger generated Adjusted EBITDA of \$35.8 million for the fourth quarter of 2019, \$12.1 million lower than the prior year comparative quarter of \$47.9 million. Adjusted EBITDA was impacted by reduced revenues, lower gross profit margins and higher direct and general and administrative expenses.
 - Revenue for the fourth quarter of 2019 of \$162.7 million was \$15.9 million, or 9% lower compared to \$178.6 million in the prior year comparative quarter.
 - In the U.S. operations, revenue for the fourth quarter of 2019 was US\$96.6 million, US\$9.3 million or 9% lower than the prior year comparative quarter of US\$105.9 million. Reduced revenue in the U.S. operations was due to the absence of \$20.0 million in emergency response revenues realized in the fourth quarter of 2018, more than offsetting the revenue growth in Badger's U.S. geographic and end use markets attributable to increased customer demand as a result of the ongoing adoption of hydro excavation as the preferred method for non-destructive excavation.
 - Revenue growth in a select number of U.S. regions was more modest compared to the growth realized in the prior year comparative quarter as a result of reduced customer demand due primarily to reduced general activity levels.
 - In Canada, revenue for the fourth quarter of 2019 of \$35.2 million was \$3.7 million, or 10% lower than the prior year comparative quarter with revenue of \$38.9 million. The decrease in revenue is due to reduced customer demand in Western Canada driven by a slowdown in oil and gas activity, more than offsetting higher revenues in Eastern Canada.
 - Average hydrovac rates were consistent to modestly higher across the majority of the U.S. and Canadian markets compared to the prior year comparative quarter.
- RPT for the fourth quarter of 2019 was \$31,075 on a consolidated basis, 18% lower than the prior year comparative quarter of \$37,837. RPT in the U.S. operations was US\$32,893 compared to US\$40,859 in the prior year comparative quarter, with RPT in the Canadian operations of \$26,408 compared to \$30,544 in the prior year comparative quarter. The quarter-over-quarter change in RPT was driven by:
 - The absence of \$20.0 million in emergency response work realized in 2018 that did not recur in 2019 as previously noted;
 - Modestly lower customer activity levels; and
 - Reduced revenues and activity levels in Western Canada.
- Gross profit margin for the fourth quarter of 2019 was 29.3%, 220 basis points lower than the prior year comparative quarter of 31.5%. Adjusted EBITDA margin for the fourth quarter of 2019 was 22.0%, 480 basis points lower than the prior year comparative margin of 26.8%.
 - Gross profit margin in the fourth quarter of 2019 was impacted by higher labour, and labour related costs, primarily due to costs associated with the recruitment and training of new operators and the impact of reduced labour efficiency in a number of markets where revenue growth was modest relative to the prior year comparative quarter.
 - Adjusted EBITDA margin was impacted for the same reasons as gross profit margin combined with the impact of higher general and administrative expenses due to growth in the business and costs associated with the implementation of Badger's ERP.
- During the fourth quarter of 2019, Badger successfully rolled out its new ERP system across its corporate operations; with its Operating Partners' and Franchisees' going live in January 2020. All components of the ERP are functioning as intended across all parts of the business. See "Common Business Platform Project" for additional details.

- During the fourth quarter of 2019, Badger placed 41 net hydrovacs into service, consisting of 49 new and 8 retired.
 - As at December 31, 2019, Badger had 1,364 total hydrovacs compared to 1,221 at December 31, 2018. See “Capital Resources” for additional details.
- Net profit for the fourth quarter of 2019 was \$15.9 million or \$0.45 per share compared to \$23.5 million or \$0.63 per share in the prior year comparative quarter. Net profit for the fourth quarter of 2019 was impacted by the same items as Adjusted EBITDA, in addition to higher depreciation and amortization expense, offset in part, by reduced share-based plan expense and lower income tax expense. Net profit per share on a quarter-over-quarter basis benefitted from a 5% reduction in the weighted average common shares outstanding as a result of common shares repurchased under the Company’s NCIB program.
- Effective January 1, 2019, Badger adopted IFRS 16 - *Leases* on a prospective basis. The impact on the 2019 fourth quarter results was a reduction in direct operating costs of \$1.1 million with a corresponding improvement to gross profit margin. Offsetting the reduction in direct operating costs was an increase in depreciation expense of \$1.1 million and an increase in finance cost of \$0.1 million. See “Changes in Accounting Policies” for additional details.
- During the fourth quarter of 2019, pursuant to the NCIB program, Badger purchased and cancelled 210,000 of its common shares at a weighted average price per share of \$36.37. See “Normal Course Issuer Bid” for additional details.

Results of Operations

Revenues

Revenues of \$162.7 million for the fourth quarter of 2019 were 9% lower than the \$178.6 million generated during the prior year comparative quarter. The change in revenue is attributable to the following:

- Revenue in the U.S. operations decreased by 9% to US\$96.6 million for the fourth quarter of 2019 compared to US\$105.9 million in the prior year comparative quarter. Fourth quarter revenues for the U.S. operations were impacted by the following:
 - The absence of \$20.0 million in emergency response revenues realized in the fourth quarter of 2018 which more than offset continued revenue growth in Badger’s U.S. geographic and end use markets attributable to increased customer demand as a result of the ongoing adoption of hydro excavation as the preferred method for non-destructive excavation.
 - Revenue growth in a select number of regions was lower than the prior year comparative quarter as a result of reduced customer demand, due primarily to a combination of slower general activity levels.
 - Hydrovac rates in the U.S. operations were consistent to modestly higher than the prior year across the majority of markets.
 - U.S. revenue converted to Canadian dollars was \$127.5 million in the fourth quarter of 2019, compared to \$139.7 million in the prior year comparative quarter, a 9% decrease. The weighted average foreign currency rate used in the translation of U.S. dollar revenues to Canadian dollars for the fourth quarter of 2019 was CDN\$1.32 to US\$1.00, compared to CDN\$1.32 to US\$1.00 in the prior year.
- Revenue in the Canadian operations for the fourth quarter of 2019 of \$35.2 million was \$3.7 million or 10% lower than the prior year comparative quarter with revenue of \$38.9 million. The decrease in revenue is due to reduced customer demand in Western Canada, driven by a slowdown in oil and gas activity. Reduced revenue in Western Canada was offset, in part, by higher revenues in Eastern Canada compared

to the prior year quarter due to a combination of increased customer demand and improved operational performance.

- Hydrovac rates in the Canadian operations were consistent to modestly higher than the prior year across the majority of markets.
- Revenue growth in both the U.S. and Canadian operations was limited in certain regions due to the availability of trained operators.
- Other services revenue for the fourth quarter of 2019 was \$7.2 million, consistent with the prior year comparative quarter of \$7.1 million. Other services revenue benefitted from increased customer demand for flushing and related services.

Consolidated RPT for the fourth quarter of 2019 was \$31,075 compared to \$37,837 in the prior year comparative quarter. RPT in the U.S. operations in the fourth quarter of 2019 was US\$32,893 compared to US\$40,859 in the prior year comparative quarter, and for the Canadian operations was \$26,408 in the fourth quarter compared to \$30,544 in the prior year comparative quarter. The reduction in RPT in the U.S. was primarily due to the absence of \$20.0 million in emergency response work realized in the prior year quarter as previously noted. Additionally, RPT in both Canada and the U.S. was negatively impacted by modestly lower customer activity levels relative to the prior year as previously noted. Despite lower revenue growth rates, Badger successfully integrated an additional 41 net new hydrovacs into its fleet throughout the fourth quarter of 2019, with 143 net hydrovacs being added to the fleet throughout fiscal 2019.

For additional information on RPT, refer to the definition under the “Key Financial Metrics and Other Operational Metrics” section.

Direct Costs

Direct costs for the fourth quarter of 2019 were \$115.1 million compared to \$122.4 million in the prior year comparative quarter. On a dollar basis, the decrease in direct costs was due to reduced revenues as previously noted. As a percentage of revenue, direct costs for the fourth quarter of 2019 of 70.7% were modestly higher than the prior year comparative quarter of 68.5%.

Labour related costs as a percentage of revenue were higher than the prior year comparative quarter as a result of modestly lower labour efficiency, due in part to reduced customer activity levels and an increase in headcount associated with operators and non-operator administrative support functions. Non-operator labour included in direct costs, which includes functions such as environmental, health and safety and sales and marketing, were modestly higher than the prior year quarter on a percentage of revenue basis due primarily to ongoing growth in the business combined with reduced revenues. Similarly, costs associated with repairs and maintenance as a percentage of revenue were modestly higher than the prior year quarter due to a combination of reduced quarterly revenues and the timing of expenditures. Offsetting higher general labour and repairs and maintenance costs, was a reduction in short-term incentive plan costs due primarily to a reduction in the growth rate of Adjusted EBITDA which is a core driver of the Company’s incentive plan programs. Costs related to fuel and insurance were consistent with the prior year as a percentage of revenue. Also impacting direct costs was the adoption of IFRS 16 – *Leases*, details of which are summarized below.

Bad debt expense, which is included in direct costs, was \$1.3 million for the fourth quarter of 2019, compared to an expense of \$5.3 million in the prior year comparative quarter. The reduction in bad debt expense compared to the prior year quarter is due to the absence of a specific bad debt expense incurred in the prior year comparative quarter.

As disclosed in the first quarter of 2019, Badger prospectively adopted IFRS 16 – *Leases*. As a result of the prospective adoption of this standard, Badger’s 2019 fourth quarter direct costs were approximately \$1.1 million lower than the prior year comparative period with a corresponding improvement to gross profit. Offsetting the reduction in direct costs was an increase in depreciation expenses of approximately \$1.1 million and an increase in finance cost of \$0.1 million. For additional details on the impact of the adoption of this standard see “Changes in Accounting Policies.”

Gross Profit

Gross profit for the fourth quarter of 2019 was \$47.6 million compared to \$56.2 million in the prior year comparative quarter, with a corresponding gross profit margin of 29.3% for the fourth quarter compared to 31.5% in the prior year comparative quarter. Gross profit margin in the U.S. operations was 29.7% for the fourth quarter of 2019 compared to 32.7% for the prior year comparative quarter, with gross profit margin in the Canadian operations of 27.6% for the fourth quarter of 2019 compared to 27.3% in the prior year comparative quarter.

Gross profit margin in the U.S. operations was impacted by higher costs associated with the recruitment and training of operators, higher headcount of non-operator support functions and reduced labour efficiency, the absence of higher margin emergency response work realized in the prior year, offset in part by, the absence of bad debts recognized in the prior year comparative quarter, the impact of the adoption of IFRS 16 and reduced short-term incentive plan costs, all of which were previously discussed. Gross profit margins in Canada were modestly higher than the prior year as operational improvements in the Eastern region and the impact of the adoption of IFRS 16 more than offset the impact of a challenging Western region. As previously noted, average hydrovac rates were consistent to modestly higher across the majority of the U.S. and Canadian markets compared to the prior year comparative, and as such, did not have a significant impact on gross profit.

General and Administrative Expenses

General and administrative expenses for the fourth quarter of 2019 were \$11.8 million compared to \$8.3 million in the prior year comparative quarter. As a percentage of revenue, general and administrative expenses were 7.3% in the fourth quarter of 2019 compared to 4.6% in the prior year comparative quarter. Consistent with the first three quarters of 2019, the increase in general and administrative expenses as a percentage of revenue, and on a total dollar basis, is primarily the result of activities being undertaken to augment the administrative infrastructure in order to support the overall growth in Badger’s business combined with the impact of operating both the legacy and new ERP systems. Incremental costs relate to activities directly and indirectly attributable to investments in technology, business process improvement initiatives, the Common Business Platform project, and the establishment of Badger University.

See “General and Administrative Expenses” in the discussion of the 2019 annual results for additional details on general and administrative expense reduction initiatives.

Depreciation of Property, Plant and Equipment and Amortization of Intangible Assets

Depreciation and amortization expense was \$17.3 million for the fourth quarter of 2019 compared to \$12.0 million in the prior year comparative quarter. The increase in depreciation and amortization expense is the result of capital expenditures incurred during the previous four quarters combined with the impact of the adoption of IFRS 16. The adoption of IFRS 16 resulted in an increase of depreciation expense of approximately \$1.1 million in the fourth quarter of 2019.

Share-based Compensation Expense

Share-based compensation expense was a net recovery of \$1.9 million in the fourth quarter of 2019 compared to an expense of \$3.9 million in the prior year comparative quarter. The decrease in the expense is due primarily to the decrease in the market value of Badger's common shares during the fourth quarter of 2019. Share-based compensation expense will fluctuate based on the effects of the movement in Badger's share price, combined with the impact of normal course vesting of previously issued long-term incentive plan grants and the issuance, if any, of new long-term incentive plan grants.

Gain or Loss on Sale of Property, Plant and Equipment

Loss on the sale of property, plant and equipment for the fourth quarter of 2019 was \$0.4 million compared to a gain of \$0.2 million in the prior year comparative quarter. Gains or losses on the sale of property, plant and equipment are the result of the proceeds on the disposal of general equipment and hydrovac units retired and disposed of being greater than or less than the residual book value. Gains or losses on the disposition of property, plant and equipment will vary depending on the timing and type of equipment being disposed of in a respective quarter.

Finance Cost

Finance costs, which consists primarily of interest on the Company's senior secured notes, Credit Facility, standby fees on the Credit Facility and finance costs associated with lease liabilities, were \$2.0 million for the fourth quarter of 2019, \$0.7 million higher than the prior year comparative quarter of \$1.3 million. The increase in finance costs is primarily due to interest costs associated with higher debt obligations outstanding on the Company's Credit Facility, in addition to interest costs associated with lease liabilities which have been recognized effective January 1, 2019, in accordance with the prospective adoption of IFRS 16.

As at December 31, 2019, the Company's debt obligations, excluding the impact of normal course operating leases and outstanding letters of credit, consisted of \$67.2 million drawn on the Company's Credit Facility, the US\$75.0 million senior secured notes and \$17.2 million in lease liabilities, all of which are further described herein.

Income Tax

Total income tax expense for the fourth quarter of 2019 was \$1.9 million compared to \$8.5 million in the prior year comparative quarter. Included in the fourth quarter of 2019 total income tax expense is a current income tax recovery of \$1.1 million and deferred income tax expense of \$3.0 million, compared to a current income tax recovery of \$0.1 million and deferred income tax expense of \$8.6 million in the prior year comparative quarter.

Current income tax recovery for the fourth quarter of 2019 of \$1.1 million is comprised of a \$0.5 million U.S. current income tax recovery (Q4 2018 – \$4.2 million expense) and a \$0.6 million Canadian current income tax recovery (Q4 2018 – \$4.3 million recovery). The decrease in U.S. and Canadian current income tax expense is due to the absence of the finalization of historical transfer pricing initiatives included in the prior year

comparative quarter's current income tax expense combined with reduced taxable income in both the U.S. and Canada.

Deferred income tax expense for the fourth quarter of 2019 was \$3.0 million compared to \$8.6 million in the prior year comparative quarter. The reduction in deferred income tax expense is due to the absence of the finalization of historical transfer pricing initiatives included in the prior year's determination of deferred income taxes combined with a reduction in taxable income in both the U.S. and Canada.

Net Profit

Net profit for the fourth quarter of 2019 was \$15.9 million compared to the prior year comparative quarter with net profit of \$23.5 million. Net profit was impacted by reduced revenues and gross profit, higher depreciation and amortization expense, higher general and administrative expenses, offset in part, by reduced share-based plan expense and lower income tax expense, all of which is fully described previously in this MD&A.

Other Comprehensive Income

Total OCI, which includes the effect of translating U.S. operations into Canadian dollars, and the offsetting translation of U.S. dollar denominated senior secured notes into Canadian dollars that are designated as a hedge of the U.S. operations, resulted in an OCI loss of \$8.1 million for the fourth quarter of 2019 compared to income of \$11.5 million in the prior year comparative quarter. The change in OCI for the fourth quarter of 2019 is the result of the Canadian dollar strengthening relative to the U.S. dollar throughout the fourth quarter of 2019. OCI has no impact on Badger's cash flow from operations or Adjusted EBITDA.

Liquidity and Dividends

Cash flow from operating activities for the fourth quarter of 2019 was \$42.4 million, compared to the prior year comparative quarter of \$67.2 million. Cash flow from operating activities was impacted by lower net profit after the impact of certain non-cash adjustments, combined with the impact of reduced income tax recoveries. Cash flow from operating activities before non-cash working capital and other adjustments was \$35.6 million in the fourth quarter of 2019, lower than the prior year comparative quarter of \$48.9 million due largely to reduced net profit and Adjusted EBITDA.

Capital Resources

Investing

Badger invested \$31.6 million in total capital expenditures, including light-duty trucks, for the fourth quarter of 2019, compared to \$17.6 million in the prior year comparative quarter. The majority of capital expenditures during the fourth quarter of 2019 related to the production of hydrovacs.

See the “Capital Resources” in the discussion of the years ended 2019 and 2018 for additional details on capital spending including details on the manufactured cost of hydrovacs for fiscal 2019 and 2018.

Capital Expenditures

(\$ thousands)	Three months ended December 31,	
	2019	2018
Hydrovac completed units and work-in-progress ^{(1) (2)}	26,865	14,985
Other vehicles and trailers	3,149	2,574
Buildings	148	-
Other	566	79
Total expenditures of property, plant and equipment	30,728	17,638
Upfront payments for right-of-use assets ⁽³⁾	831	-
Total capital expenditures	31,559	17,638

⁽¹⁾ Total work-in-progress (“WIP”), including chassis and WIP on other vehicles, recognized on Badger’s balance sheet as at December 31, 2019, and 2018, was \$22.3 million and \$12.2 million, respectively.

⁽²⁾ WIP includes hydrovacs currently being manufactured and chassis that will be used in future hydrovac builds.

⁽³⁾ Upfront payments for right-of-use assets relate to the Company’s leasing of light-duty trucks. See “IFRS 16 - Leases” for additional details.

Common Business Platform Project Fourth Quarter Cost Summary

Total expenditures incurred during the fourth quarter of 2019, were \$3.5 million, with \$1.9 million included in general and administrative expenses and \$1.6 million capitalized and categorized as a component of intangible assets.

For additional details on the implementation and total costs of the Common Business Platform, see “Common Business Platform Project”.

Related Parties

Refer to the Company’s 2019 audited consolidated financial statements for disclosure related to related parties.

Financial Instruments and Risk Management

Fair values

The Company's financial instruments recognized on the consolidated statements of financial position consist of cash and cash equivalents, trade and other receivables, income taxes receivable, trade and other payables, dividends payable, income taxes payable, borrowings under credit facility, current and long-term lease liabilities, and current and long-term debt. The fair values of these recognized financial instruments, excluding long-term debt, approximate their carrying value due to their short-term maturity. The carrying value of the Company's credit facility and lease liabilities approximate fair value because these liabilities utilize floating and/or market based interest rates. The fair value of the Company's senior secured notes are disclosed in the 2019 audited annual consolidated financial statements.

Credit risk

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

Liquidity risk

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

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

Market risk

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

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on a portion of its long-term debt whose rate is floating. Interest is calculated based on prime lending rates, banker's acceptance rates (BA) or the London interbank offered rate ("LIBOR") and is dependent on the nature of the borrowing. Interest rates are subject to change. As at December 31, 2019, the Company had \$67.2 million drawn on its Credit Facility which is subject to a floating interest rate. The Company does not use interest rate hedges, fixed interest rate contracts or other similar derivative instruments to manage its exposure to interest rate fluctuations, but has chosen to issue US\$75.0 million in fixed rate senior secured notes which fixes interest exposure on the Company's long-term debt.

Foreign exchange risk

The Company is exposed to foreign currency fluctuations as revenue and expenses derived from United States operations are denominated in United States dollars. The United States subsidiaries are subject to translation gains and losses on consolidation. The Company's Canadian operations purchase certain products in United States dollars. Foreign exchange gains and losses are included in net profit while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the Company's United States operations are included in OCI. The Company also holds United States dollar denominated debt, the US\$75.0 million fixed rate senior secured notes, which are used to manage, in part, the exposure to foreign exchange gains and losses arising from the translation of its United States functional currency operations included in OCI. The Company does not utilize foreign currency forward contracts or similar derivative instruments to manage its exposure to foreign currency fluctuations.

Selected Quarterly Financial Information

(\$ thousands, except per share amounts)	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	162,715	183,743	161,210	146,614	178,609	168,712	147,550	120,571
Net profit	15,913	25,839	11,949	6,031	23,468	25,689	10,586	8,074
Net profit per share, basic and diluted (\$)	\$0.45	\$0.73	\$0.33	\$0.16	\$0.63	\$0.69	\$0.29	\$0.22
Dividends paid	5,001	5,067	5,112	4,885	5,009	5,009	4,749	4,229
Dividends per share, basic and diluted (\$)	\$0.140	\$0.140	\$0.140	\$0.135	\$0.135	\$0.135	\$0.128	\$0.114

During the periods in the above table, Badger's results were impacted by the following factors and trends:

- General improvements in economic growth and overall macro-economic conditions in both the U.S. and Canada;
- Increased usage and demand for Badger's hydrovac services, particularly in the U.S., which is Badger's largest market. The increase in customer demand has resulted in an increase in revenues, gross dollar direct costs, general and administrative expenses and Adjusted EBITDA;
- The seasonality within Badger's business as a result of the seasonal upswing in construction activity, the impact of which will typically result in higher activity levels in the second, third and fourth quarters, with reduced activity levels in the first quarter due to the normal course slowdown in certain northern markets during the winter construction season;
- Impact of unusual and/or non-typical weather conditions such as natural disasters, general precipitation levels or extreme winter weather conditions which may impact the timing and level of customer demand;
- Timing of customer emergency response services due to natural disasters;
- Additional investments related to the manufacture of hydrovac units and an increase in working capital requirements associated with the underlying growth in the business;
- The execution and implementation of Badger's Common Business Platform/ERP project;
- Finalization of income tax benefits associated with transfer pricing activities for the 2009 through 2013 taxation years in the second quarter of 2018; and
- Updated U.S. income tax legislation, effective December 22, 2017, impacted Badger's 2018 current income tax expense.

Key Financial Metrics and Other Operational Metrics

“Revenue per truck per month” (RPT) is a measure of hydrovac fleet utilization. It is calculated using hydrovac and hydrovac related revenue only. RPT is calculated on both a consolidated basis and for each geographic segment by dividing hydrovac and hydrovac related revenue for each segment, in the respective local currency, by the average number of hydrovacs in the segment during the period.

Revenue per truck per month – United States

(\$ thousands, except for RPT and average hydrovacs)	Three months ended December 31,		Twelve months ended December 31,	
	2019	2018	2019	2018
Total revenue	127,474	139,724	512,471	465,917
Less: Other revenue	1,768	830	4,895	2,929
Hydrovac revenue	125,706	138,894	507,576	462,988
Foreign exchange rate ⁽¹⁾	1.3201	1.3191	1.3267	1.2992
Hydrovac revenue - U.S. equivalent	95,225	105,295	382,585	356,364
Average hydrovacs ⁽²⁾	965	859	924	807
RPT (U.S. dollars) ⁽³⁾	32,893	40,859	34,504	36,799

Revenue per truck per month – Canada

(\$ thousands, except for RPT and average hydrovacs)	Three months ended December 31,		Twelve months ended December 31,	
	2019	2018	2019	2018
Total revenue	35,241	38,885	141,811	149,525
Less: Other revenue	5,453	6,264	21,809	25,307
Hydrovac revenue	29,788	32,621	120,002	124,218
Average hydrovacs ⁽²⁾	376	356	367	359
RPT ⁽³⁾	26,408	30,544	27,248	28,834

Revenue per truck per month – Consolidated (mixed currency)

(\$ thousands, except for RPT and average hydrovacs)	Three months ended December 31,		Twelve months ended December 31,	
	2019	2018	2019	2018
Hydrovac revenue - U.S.	95,225	105,295	382,585	124,218
Hydrovac revenue - Canada	29,788	32,621	120,002	356,364
Total hydrovac revenue	125,013	137,916	502,587	480,582
Average hydrovacs ⁽²⁾	1,341	1,215	1,291	1,166
RPT ⁽³⁾	31,075	37,837	32,442	34,347

⁽¹⁾ Foreign exchange rate calculated on a weighted average basis for the respective period. See “Foreign Exchange Rates” for additional details.

⁽²⁾ See “Fleet Summaries” for additional details.

⁽³⁾ Revenue per truck per month is calculated by taking hydrovac revenue divided by the number of average trucks for the period and further divided by the number of months in the respective period, being three months for a quarter and twelve months for an annual period.

Fleet Summaries

Number of hydrovacs at period end

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Canada	380	371	366	357	355	356	363	368
U.S.	981	949	922	884	866	851	827	786
	1,361	1,320	1,288	1,241	1,221	1,207	1,190	1,154
Hydrovac operator training center ⁽¹⁾	3	3	2	-	-	-	-	-
Total	1,364	1,323	1,290	1,241	1,221	1,207	1,190	1,154

⁽¹⁾ Designates hydrovac units being utilized at Badger's U.S. hydrovac operator training center. Hydrovacs utilized for training on a permanent basis are not available for day-to-day revenue generation, and as such, these units are excluded in the calculation of RPT.

Average number of hydrovacs during the period ⁽¹⁾

	2019					2018				
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Canada	367	376	369	362	356	359	356	360	366	365
U.S.	924	965	936	903	875	807	859	839	807	767
Total	1,291	1,341	1,305	1,265	1,231	1,166	1,215	1,199	1,173	1,132

⁽¹⁾ The average number of hydrovacs during the period is calculated using a simple average between the opening number of hydrovacs during the period and the closing number of hydrovacs during the period.

Marketing and Franchise Agreements

Number of Marketing and Franchise Agreements	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Canada	14	14 ⁽⁵⁾	11 ⁽⁴⁾	10 ⁽³⁾	9	9	9 ⁽²⁾	10
U.S.	3	3 ⁽⁶⁾	4	4	4	4	4	4 ⁽¹⁾

⁽¹⁾ A new U.S. based franchise agreement was executed during the first quarter of 2018.

⁽²⁾ Badger purchased the assets of an operating partner to facilitate the operating partner's exit from the business.

⁽³⁾ A new Canadian based operating partner agreement was executed during the first quarter of 2019.

⁽⁴⁾ A new Canadian based operating partner agreement was executed during the second quarter of 2019.

⁽⁵⁾ Three new Canadian based operating partner agreements were executed during the third quarter of 2019.

⁽⁶⁾ Badger purchased the assets of a U.S. based franchisee to facilitate the franchisee's exit from the business.

Foreign Exchange Rates

1 USD:CDN	2019					2018				
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Period weighted average ⁽¹⁾	1.3267	1.3201	1.3208	1.3374	1.3296	1.2992	1.3191	1.3068	1.2917	1.2663
Period end	1.2988	1.2988	1.3243	1.3087	1.3363	1.3642	1.3642	1.2945	1.3168	1.2894

⁽¹⁾ Period weighted average foreign exchange rate as calculated utilizing individual monthly average foreign exchange rates, on a weighted basis, for the underlying respective period.

The U.S. dollar to Canadian dollar foreign exchange rate impacts financial results due to the translation of U.S. operations into Canadian dollars.

Non-IFRS Financial Measures

This MD&A contains references to certain financial measures, including some that do not have any standardized meaning prescribed by IFRS and that may not be comparable to similar measures presented by other companies or entities. These financial measures are identified and defined below:

“**Adjusted EBITDA**” is earnings before interest, taxes, depreciation and amortization, share-based compensation, gains and losses on sale of property, plant and equipment, and gains and losses on foreign exchange. Adjusted EBITDA is a measure of the Company’s operating profitability and is therefore useful to management and investors as it provides improved continuity with respect to the comparison of operating results over time. Adjusted EBITDA provides an indication of the results generated by the Company’s principal business activities prior to how these activities are financed, the results are taxed in various jurisdictions, and assets are amortized. In addition, Adjusted EBITDA excludes gains and losses on sale of property, plant and equipment as these gains and losses are considered incidental and secondary to the principal business activities, it excludes gains and losses on foreign exchange, as such gains and losses can vary significantly based on factors beyond the Company’s control, and it excludes share-based compensation as these expenses can vary significantly with changes in the price of the Company’s common shares.

Adjusted EBITDA is calculated as follows:

(\$ thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2019	2018	2019	2018
Adjusted EBITDA				
Net profit	15,913	23,468	59,732	67,817
Add:				
Depreciation of property, plant and equipment	17,310	12,038	63,524	48,996
Share-based compensation expense (recovery)	(1,892)	3,949	11,039	10,321
Loss (gain) on sale of property, plant and equipment	445	(204)	55	740
Finance cost	2,035	1,256	6,917	4,892
Foreign exchange loss (gain)	127	(1,128)	713	(876)
Income tax expense	1,901	8,479	16,466	29,817
Adjusted EBITDA	35,839	47,858	158,446	161,707

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2019	2018	2019	2018
Adjusted EBITDA				
Revenue	162,715	178,609	654,282	615,442
Less:				
Direct costs	115,079	122,419	453,264	424,162
General and administrative expense	11,797	8,332	42,572	29,573
Adjusted EBITDA	35,839	47,858	158,446	161,707

“**Adjusted EBITDA margin**” is Adjusted EBITDA as defined above, expressed as a percentage of revenues.

Adjusted EBITDA margin is calculated as follows:

(\$ thousands except for percentages)	Three months ended December 31,		Twelve months ended December 31,	
	2019	2018	2019	2018
Adjusted EBITDA margin				
Adjusted EBITDA	35,839	47,858	158,446	161,707
Revenue	162,715	178,609	654,282	615,442
Adjusted EBITDA margin	22.0%	26.8%	24.2%	26.3%

“**Compliance EBITDA**” is earnings before interest, taxes depreciation, amortization, calculated on a 12-month trailing basis, and is used by the Company to calculate compliance with its debt covenants and other credit information.

Compliance EBITDA is calculated as follows:

(\$ thousands)	Twelve months ended December 31,	
	2019	2018
Compliance EBITDA		
Net profit	59,732	67,817
Add:		
Depreciation of property, plant and equipment	63,524	48,996
Finance cost	6,917	4,892
Income tax expense	16,466	29,817
Compliance EBITDA – for purposes of senior secured notes	146,639	151,522
Add:		
Foreign currency revaluations	(44)	-
Loss on sale of property, plant and equipment	55	-
Share-based payments	2,477	-
Compliance EBITDA – for purposes of Credit Facility ⁽¹⁾	149,127	151,522

⁽¹⁾ The calculation of Compliance EBITDA for purposes of the Credit Facility for the twelve months ended December 31, 2019, is in accordance with the requirements of the updated Credit Facility which was executed on September 30, 2019.

“**Total Debt**” consists of long-term debt and lease liabilities, including the current portion thereof, and issued letters of credit, less certain cash on hand. Total Debt is used by the Company to calculate compliance with its debt covenants and other credit information.

Total Debt is calculated as follows:

(\$ thousands)	As at December 31,	
Total Debt	2019	2018
Long-term debt	64,940	102,315
Current portion of long-term debt	32,470	-
Borrowings under credit facility ⁽¹⁾	67,157	-
Lease liability ⁽²⁾	11,442	-
Current portion of lease liability ⁽²⁾	5,709	-
Total obligations	181,718	102,315
Add: issued letters of credit	4,401	3,856
Less: cash on hand up to \$10.0 million ⁽³⁾	(8,801)	(10,000)
Total Debt – for purposes of senior secured notes	177,318	96,171
Less: cash on hand greater than \$10.0 million ⁽³⁾	-	-
Total Debt – for purposes of Credit Facility ⁽⁴⁾	177,318	96,171

(1) Borrowings under credit facility is before unamortized debt issuance costs.

(2) See “IFRS 16 – Leases” for additional details.

(3) Badger may deduct certain cash on hand in the calculation of Total Debt in accordance with the requirements of its credit facilities. Effective September 30, 2019, the Credit Facility allows for the deduction of up to \$50.0 million of cash on hand with the senior secured note facility allowing for the deduction of up to \$10.0 million of cash on hand.

(4) The calculation of Total Debt for purposes of the Credit Facility for the period ended December 31, 2019, is in accordance with the requirements of the updated Credit Facility which was executed on September 30, 2019.

“**Tangible Net Worth**” consists of total shareholders equity less other comprehensive income subsequent to September 30, 2013, as adjusted for certain impairments and less intangible assets. Tangible Net Worth is used by Badger to calculate compliance with its debt covenants and other credit information.

Tangible Net Worth is calculated as follows:

(\$ thousands)	As at December 31,	
Tangible Net Worth	2019	2018
Shareholders equity	330,671	366,502
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	(22,963)	(37,201)
Less: intangible assets and goodwill	(32,018)	(15,212)
Tangible Net Worth	275,690	314,089

Changes in Accounting Policies

IFRS 16 – *Leases*

The International Accounting Standards Board issued IFRS 16 – *Leases*, superseding the existing standard, IAS 17 – *Leases* and IFRIC 4 – *Determining whether an arrangement contains a lease*. The standard is in effect for fiscal years beginning on or after January 1, 2019. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees, in that generally all leases will require an asset and liability to be recognized on the statement of financial position at inception. The accounting treatment for lessors remains largely the same as under IAS 17.

Effective January 1, 2019, the Company adopted IFRS 16 on a prospective basis, using the modified retrospective approach and accordingly the comparative financial information presented for 2018 has not been restated. A summary of the impact on the opening consolidated statement of financial position as at January 1, 2019, is as follows:

- Right-of-use assets of \$14.8 million recognized;
- Lease liability of \$14.8 million recognized; and
- Retained earnings adjusted by \$0.3 million.

In addition to the impact summarized above, \$3.5 million in light-duty vehicle leases have been reclassified to right-of-use assets from their previous presentation as a component of property, plant and equipment. There is no offsetting lease liability related to light-duty vehicle leases, as the full consideration of the underlying lease is paid at the inception of the lease.

A summary of the updated accounting policy related to leases as a result of the adoption of IFRS 16 can be found in the Company's 2019 annual audited consolidated financial statements.

Critical Accounting Policies and Estimates

Badger's audited consolidated financial statements have been prepared in accordance with IFRS. The significant accounting policies are described in the audited consolidated financial statements for the year ended December 31, 2019. Certain of these accounting policies, as well as estimates made by management in applying such policies, are recognized as critical because they require management to make subjective or complex judgements about matters that are inherently uncertain at the time the accounting estimate is made, and if different estimates Badger could have used would have a material impact on Badger's financial condition, changes in financial condition or results of operation.

While there are several estimates and assumptions made by management in the preparation of the audited consolidated annual financial statements in accordance with IFRS, the following critical accounting estimates have been identified by management:

Property, Plant and Equipment

The Company 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 at the end of each reporting period 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. Future results of operations could be materially affected by changes in the estimated useful lives due to factors mentioned above. The amounts and timing of recorded expenses would be affected by this as a reduction in the estimated useful lives of the property, plant and equipment would increase the recorded depreciation expense with an offset to the value of the related property, plant and equipment.

Intangible Assets

Intangible assets consist of service rights acquired from the Company's operating partners, customer relationships, trade names, non-compete agreements and costs associated with the Company's ERP implementation. The initial valuation of intangibles at the closing date of any acquisition requires judgement and estimates by management with respect to identification, valuation and determining the expected periods of benefit. Valuations are based on discounted expected future cash flows and other financial tools and models and are amortized over their expected periods of benefit or not amortized if it is determined the intangible asset has an indefinite life. Intangible assets are reviewed annually with respect to their useful lives or more frequently if events or changes in circumstances indicate that the assets might be impaired. A change in the remaining life of an intangible asset would affect the amortization rate used to amortize the intangible asset for assets being amortized, and for assets not being amortized could result in an impairment of the related asset, the impact of which would be recognized in the Company's consolidated statement of comprehensive income as amortization expense or an asset impairment charge.

Depreciation and Amortization

This accounting estimate has a significant effect on the Company's financial results. It is carried out on the basis of the hydrovac units' estimated useful lives. The Company currently depreciates hydrovac units over 10 years based on current knowledge and working experience. There is a certain amount of business risk that newer technology or some other unforeseen circumstance could lower this life expectancy. A change in the remaining life of the hydrovac units or the expected residual value would affect the depreciation rate used to depreciate the hydrovac units and thus affect depreciation expense as reported in the Company's consolidated statement of comprehensive income.

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 of the related intangible assets. Changes to depreciation and amortization rates, if any, are reported prospectively if they occur.

Income Taxes

Current Income Taxes

Provisions for current income taxes are made using the best estimate of the amount expected to be paid based on a qualitative and quantitative assessment of all relevant factors that involves management's judgment. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date changes to these provisions could result from audits by tax authorities, reassessments and changes in interpretations of standards. 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.

Deferred Income Taxes

Deferred income tax assets are recognized when it is considered probable that the deductible temporary differences will be recovered. If future taxable income or the timing of the reversal differs significantly from the Company's estimate, the ability to realize the deferred tax assets could be impacted.

Deferred income tax liabilities are recognized when there are taxable temporary differences that will result in a future outflow to a tax authority. The Company records a provision for the amount that is expected to be settled. Deferred income tax liabilities may be impacted by a change in the likelihood of a future outflow and estimates of the expected settlement amount, timing of reversals and the tax laws in which the Company operates.

Tax pools and their recoverability

Badger has estimated its tax pools for the income tax provision. The actual tax pools the Company may be able to use could be materially different in the future.

Allowance for Doubtful Accounts

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

Determining Cash Generating Units

For the purpose of assessing impairment of non-financial assets, the Company must determine its cash generating units ("CGUs"). Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash flows. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU.

Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. An impairment occurs when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell 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 projection for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU 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, which requires management judgement. Impairment of non-financial assets would be recognized in the Company's consolidated statement of comprehensive income.

Goodwill

Goodwill is the amount that results when the cost of acquired assets exceeds their fair value at the date of acquisition. Goodwill is recorded at cost, is not amortized and is tested at least annually for impairment. The impairment test includes the application of a fair value test, with an impairment loss recognized when the carrying amount of goodwill exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill. Impairment of goodwill would be recognized in the Company's consolidated statement of comprehensive income.

Functional Currency

The determination of the functional currency of the Company and each of its subsidiaries requires judgement based on the composition of revenue and costs in the locations in which it operates.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure Controls and Procedures

Badger's President and CEO and its VP Finance and CFO have designed, or caused to be designed under their direct supervision, Badger's disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, adopted by the Canadian Securities Administrators) to provide reasonable assurance that (i) material information relating to Badger, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and (ii) material information required to be disclosed in Badger's annual filings, interim filings or other reports filed or submitted by it under Canadian securities legislation is recorded, processed, summarized and reported on a timely basis. Further, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's disclosure controls and procedures as at December 31, 2019 and have concluded the disclosure controls and procedures are fully effective.

Internal Control over Financial Reporting

Badger's President and CEO and its VP Finance and CFO have also designed, or caused to be designed under their direct supervision, Badger's internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Further, using the criteria established in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's internal control over financial reporting at December 31, 2019 and have concluded the internal controls over financial reporting are effective.

Changes in Internal Control over Financial Reporting

There were no changes to Badger's internal control over financial reporting in the fourth quarter of 2019 or in the year ended December 31, 2019.

Inherent Limitations

Notwithstanding the foregoing, because of its inherent limitations, a control system can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. Management's estimates may be incorrect, or assumptions about future events may be incorrect, resulting in varying results. In addition, management has attempted to minimize the likelihood of fraud. However, any control system can be circumvented through collusion and illegal acts.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements and information contained in this MD&A and other continuous disclosure documents of the Company referenced herein, including statements related to the Company's outlook, capital expenditures, projected growth, view and outlook toward margins, cash dividends, customer demand and pricing, future market opportunities, the timing and benefits associated with the Common Business Platform project, and statements, and information that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may" and similar expressions relating to matters that are not historical facts, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation. These statements and information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The Company believes the expectations reflected in such forward-looking statements and information are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements and information included in this MD&A should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this MD&A.

In particular, forward-looking information and statements in this MD&A include, but are not limited to the following:

- Badger anticipates continued overall growth in its business, particularly in its U.S. markets;
- Badger anticipates that the overall macro-economic environment in the U.S. is anticipated to be supportive of ongoing infrastructure and construction activity levels for 2020, with a softer overall macro-economic environment anticipated in Canada, particularly in Western Canada;
- Badger anticipates that oil and gas activity levels for 2020 will be lower than 2019 levels within its Canadian and U.S. operations;
- Badger continues to see customer demand as a result of increased usage of hydrovac for non-destructive excavation;
- Badger expects to see improvements in revenue as a result of investments in developing its branch network and business development function;
- The benefits, if any, that Badger's operational scale creates related to financial and operating performance;
- Badger's assumption that there will not be a material negative impact on the macro-economic environment in both the U.S. and Canada related to the coronavirus;
- Badger anticipates that Adjusted EBITDA for 2020 will be in the range of \$175 million to \$195 million;
- Badger anticipates that the number of new hydrovac builds for 2020 will be approximately 200 to 230 units and that hydrovac retirements for 2020 will be in the range of 50 to 70 units;
- Badger anticipates that gross profit margin and RPT for 2020 will be consistent with 2019;
- The timing and benefits associated with Badger's Common Business Platform project, including the impact and timing associated with general and administrative expenses;
- Badger's estimated 2020 and long-term target for general and administrative expenses as a percentage of revenue on an annualized basis and its ability to achieve such targets through measures such as reducing personnel and consulting costs attributable to the Common Business Platform project;
- The ability and benefits of Badger to purchase and subsequently cancel up to 2,000,000 of its common shares under its NCIB;
- The timing and benefits associated with the expansion of Badger's U.S. finance center and its centralized hydrovac operator training center; and
- The cost to build a hydrovac may fluctuate due to production volume, the cost of labour and materials and foreign currency as many materials are denominated or otherwise influenced by exchange rates.

The forward-looking information and statements made in this MD&A rely on certain expected economic conditions and overall demand for Badger's services and are based on certain assumptions. The assumptions used to generate this forward-looking information and statements are, among other things, that:

- There will be customer demand for hydrovac services from infrastructure, construction, and oil and gas activity in North America;
- Badger will maintain relationships with current customers and develop successful relationships with new customers;
- Badger will collect customer payments in a timely manner;
- Badger will be able to compete effectively for the demand for its services;
- There will not be significant changes in profit margins due to pricing changes driven by market conditions, competition, regulatory factors or other unforeseen factors;
- The overall market for Badger's services will not be adversely affected by weather, natural disasters, global events, legislation changes, technological advances, economic disruption or other factors beyond Badger's control;
- Badger will execute its growth strategy including attracting and retaining key personnel;
- Badger will obtain all labour, parts and supplies necessary to complete the planned hydrovac build at the costs expected; and
- Badger will achieve the operational and financial benefits from its Common Business Platform, and there will be no material capital costs directly related to the Common Business Platform in 2020.

Risk factors and other uncertainties that could cause actual results to differ materially from those anticipated in such forward-looking statements include, but are not limited to: political and economic conditions; industry competition; price fluctuations for oil and natural gas and related products and services; Badger's ability to attract and retain key personnel; the availability of future debt and equity financing; changes in laws or regulations, including taxation and environmental regulations; extreme or unsettled weather patterns; and fluctuations in foreign exchange or interest rates.

Any future orientated financial information and financial outlook information (collectively, "FOFI") contained in this MD&A, as such terms are defined by applicable securities laws, is provided for the purpose of providing information about management's current expectations and plans relating to the future and is subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs. Management believes that the FOFI has been prepared on a reasonable basis, reflecting best estimates and judgments; however, actual results of the Company's operations and financial outcomes may vary from the amounts set forth herein. FOFI contained in this MD&A was made as of the date of this MD&A and the Company does not undertake any obligation to publicly update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. Readers are cautioned that any FOFI contained herein should not be used for purposes other than those for which it has been disclosed herein.

Readers are cautioned that the foregoing factors are not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results is included in reports on file with securities regulatory authorities in Canada and may be accessed through the SEDAR website (www.sedar.com) or at the Company's website. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Risk Factors to Badger

The risk factors and uncertainties detailed below are a summary of Badger's assessment of its material risk factors as detailed in Badger's 2019 Annual Information Form under "Risk Factors" which is filed on the Canadian Securities Administrators' website, www.sedar.com and on Badger's website, www.badgerinc.com. Information contained within these websites does not constitute part of this MD&A. General risks to Badger are as follows:

Fluctuations in the Economy and Political Landscape

The Company's business, and that of its customers, is subject to a variety of general economic factors. Operations and financial results could be adversely affected by a general economic downturn, changes in market conditions, availability of credit, changes in the political landscape or limitations on spending amongst its customer base.

Reliance on Certain End Use and Geographic Markets

Badger operates across a wide range of end use infrastructure markets, as well as across a wide geographic footprint. Specifically, the oil and natural gas sector has historically been a significant end use market for Badger. Badger could be subject to a downturn in any of its end use segments, including the market for oil and natural gas, and or in certain geographic markets in which Badger operates. Badger also provides emergency response related services, including work related to large scale natural disasters such as hurricanes. The timing, size and nature of the services related to emergency response work performed by Badger is highly variable as a result of the non-recurring and specific nature of these type of events. Badger continues to focus on expanding its end use segments and geographies in order to diversify its customer demand risk, however no assurance can be provided that this expansion or diversification will be successful.

Competition

Badger operates in a highly competitive environment for hydrovac services in Canada and the United States. In order to remain the leading provider of hydrovac services, Badger continually enhances its safety and operational procedures to ensure they meet or exceed Badger's customers' expectations. Badger also has the in-house capabilities to continuously improve its Badger hydrovac units so that they remain safe, productive and efficient. There can be no assurance that Badger's competitors will not achieve greater market acceptance due to pricing, efficiency, safety and other factors.

Expansion of Badger's Business into New Jurisdictions

Badger may from time to time expand its business into new operating jurisdictions. The expansion of the business will depend upon the ability of management to successfully implement its strategy. There is no guarantee that this business expansion will be successful. Badger will need to comply with the laws of these new jurisdictions, which may be significantly different than those the Company is accustomed to. Any failure to comply with applicable laws could result in the imposition of restrictions on the ability of Badger to conduct business in these jurisdictions, and could also result in fines or sanctions, any or all of which could adversely affect its results of operations or financial condition. In addition, any changes in laws and regulations in these new jurisdictions could adversely affect the business, results of operations and financial condition of the Company.

Global Financial Conditions

Global financial conditions include the commodity and equity markets that have been volatile as investors react to changes in the global economy. As a result of these global conditions, the Company may be subject to increased counterparty and liquidity risks. The Company is exposed to various counterparty risks including, but not limited to: financial institutions that hold the cash of the Company to provide available funding on the Credit Facility and the insurance providers of the Company. As a result, the cash of the Company may become exposed to credit related losses in the event of non-performance by counterparties to these financial instruments. In the event that a counterparty fails to complete its obligations, the Company would bear the risk of loss of the amount expected to be received under these financial instruments in the event of the default or bankruptcy of a counterparty.

The Company is also exposed to liquidity risk in the event its cash positions decline or become inaccessible for any reason, or additional financing is required to advance its projects or growth strategy and appropriate financing is unavailable, or demand for oil and gas falls. Any of these factors may impact the ability of the Company to obtain further equity based funding, loans and other credit facilities in the future and, if obtained, on terms favourable to the Company. If volatility and market turmoil recur, the Company's results from operations and planned growth could be adversely impacted.

Dependence on Key Personnel

Badger's success depends on the services of key management members. The experience and talents of these individuals will be a significant factor in Badger's continued success and growth. The loss of one or more of these individuals could have a material adverse effect on Badger's operations and business prospects. Management and the Board of Directors are focused on succession planning with respect to senior management personnel.

Availability and Cost of Qualified Labour

Badger's ability to maintain, and grow, its business is dependent upon its ability to attract and retain skilled personnel. Shortages of skilled personnel could have a material effect on Badger's operations and financial results by restricting growth and/or by increasing labour costs.

A significant proportion of Badger's workforce is comprised of operators for its Badger Hydrovac units, who are required to hold commercial driver's licenses. Badger hires and trains these operators over a broad range of geographies, and its ability to recruit and retain drivers with the necessary skills, including commercial driver's licenses, is subject to local and regional labour market conditions.

A portion of Badger's workforce is unionized, and Badger is a party to various local union agreements. Relations with local unions and the renewal of existing agreements could negatively impact Badger's business, financial condition, and results from operations. Badger maintains ongoing dialogue with local unions but there is no guarantee that operational disruptions will not occur.

Reliance on Key Suppliers

Badger sources the parts and products for the manufacture of its hydrovacs from a variety of suppliers. Should any suppliers of Badger be unable to provide the necessary products or otherwise fail to deliver products in the quantities required or at acceptable prices, any resulting disruption or delays in the sourcing of new products or suppliers could have a material adverse effect on Badger's business, financial condition and results from operations. In addition, Badger's ability to grow will be dependent on the Company having access, at a reasonable cost and in a

timely manner, to parts and products required to manufacture hydrovacs. No assurance can be given that the Company will be successful in maintaining the required supply of parts and products to manufacture hydrovacs.

Fluctuations in Weather and Seasonality

Badger's operating results have been, and are expected to continue to be, subject to fluctuations on a quarterly basis due to a variety of factors including changes in weather conditions and seasonality. In the western United States, Badger has in the past, been restricted by the imposition of government regulations from conducting its work in environmentally sensitive areas during the mating seasons of certain animals and birds. This has had a negative effect on Badger's results. As such, changes in the weather and seasonality may, depending on the location and nature of the event, have either a positive or negative effect on Badger's operating and financial results.

Ability to Expand the Business

Badger has an organic growth strategy, the success of which will be dependent upon a number of factors including the Company's ability to retain and expand its customer roster; expand into new geographical regions; recruit and retain additional staff; and manufacture sufficient additional hydrovac units. The achievement of these results may be impacted by many factors including competitive conditions; availability of qualified staff; and changes in input costs including labour rates.

Safety

Badger has implemented programs that seek to ensure its operations meet or exceed established safety standards. Badger also employs safety advisors in its regions who are responsible for maintaining and developing Badger's safety policies. Regional safety advisors monitor Badger's operations in an effort to ensure they are operating in compliance with such policies. However, despite Badger's efforts to operate safely there is no certainty that accidents or incidents will not occur.

Badger is exposed to a variety of liabilities, some that are common to similar industrial operations and others that are unique to the services that Badger provides. Such liabilities may relate to an accident or incident involving one of Badger's hydrovacs or damage to equipment or property caused by one of Badger's hydrovacs, whether during operation or while in transit on public motorways, and could involve significant potential claims or injuries to employees and other third-parties.

Operating Risk and Insurance Coverage

Badger's operations are subject to certain risks due to the nature and environment in which Badger operates and the types of services Badger provides. Badger is and will continue to be involved in various legal proceedings and litigation that arise in the normal course of business. Badger maintains insurance policies with insurers for such circumstances, and in such amounts and with such coverages and deductibles, as it believes is reasonable and prudent. However, there can be no assurance that such insurance will cover all circumstances under which Badger will be subject to potential future claims related to its operations, or that such insurance will be adequate to protect Badger from all material expenses related to potential future claims related to its operations or that such levels of insurance will be available in the future at economical prices. Also, there can be no assurance that Badger's insurance providers will have the ability to satisfy all future claims in accordance with the policies.

Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash flows from financial assets on hand at the balance sheet date. Badger's trade receivables are with customers over a broad range of industries and geographies and are subject to industry credit risks. Badger manages its exposure to credit risk through standard credit-granting procedures and short payment terms. Badger attempts to monitor financial conditions of its customers and the industries in which they operate. Badger cannot assure that its customers will not experience financial difficulties in the future or that it will be able to collect all of its trade accounts receivable.

Capital Investment

The timing and amount of capital expenditures will directly affect the amount of cash available for dividend payments to shareholders. Dividends may be reduced, or even eliminated, when significant capital or operating expenditures are required.

Access to Capital

The Company may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures, to undertake acquisitions or other business combination transactions or for general corporate purposes. There can be no assurance that additional financing will be available to the Company when needed or on terms acceptable to the Company. The Company's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect on the Company. The agreements governing the Company's various credit agreements impose certain operating and financial covenants on the Company that may prevent the Company from pursuing certain business opportunities and restrict its ability to operate its business.

Additionally, the Company's ability to comply with these covenants will likely be affected by events beyond its control, and the Company cannot assure that it will satisfy those requirements. If the Company's financial performance results in a breach of any existing or future financial covenants, access to financing could be restricted and/or all or a portion of the Company's debt could become due on demand.

Compliance with Government and Related Regulations

Badger's operations are subject to a variety of federal, provincial, state and local laws, regulations and guidelines including laws and regulations related to health and safety, environment, the conduct of operations, and the manufacture of its hydrovacs used in its operations. While Badger believes that it is currently in compliance with all applicable government standards and regulations, there can be no assurance that all of Badger's business will be able to continue to comply with all applicable standards and regulations that may be in place in the future.

The laws and regulations applicable to Badger's operations provide that Badger could be liable for fines, penalties and other costs in the event that it is found to not be in compliance with those laws and regulations. A failure to comply with such laws and regulations could damage Badger's reputation and have a negative effect on Badger's operating and financial results.

In addition, Badger's securities have been sold to the public in Canada and are listed for trading on the Toronto stock exchange, and Badger is accordingly subject to regulation by Canadian securities regulators and Canadian federal and provincial laws and regulations.

Global Health Crises

Badger's financial and/or operating performance could be materially adversely affected by the outbreak of public health crises, epidemics, pandemics or outbreaks of new infection diseases or viruses, such as the recent global outbreak of a novel coronavirus ("COVID-19"). Such public health crises, including the ongoing COVID-19, can result in volatility and disruption to global supply chains, trade and market sentiment, mobility of people, and global financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions and results of operations, and other factors relevant to Badger. The risks to the Company of such public health crises, including the ongoing COVID-19, also include risks to employee health and safety, a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak, delays in the completion of Badger's services which may require the Company to incur penalties or sanctions under contracts, additional non-compensable costs, or could result in the cancellation of contracts, as well as supply chain disruptions, including Badger's procurement of equipment and spare parts, which are necessary for the construction, operation and maintenance of Badger's hydrovacs and other assets and could negatively impact Badger's business, financial condition and results of operations.

Changes in Laws or Regulations Governing Foreign Trade

Changes in governmental laws or regulations affecting foreign trade or taxation, or the introduction of new laws or regulations, may have a direct or indirect effect on the Company's business or that of its customers or suppliers. Such changes could increase the costs of doing business for the Company, its customers, or suppliers, or restrict the Company's actions, causing the Company's results of operations to be adversely affected.

On September 30, 2018, Canada, the United States and Mexico announced the completion of negotiations on the United States-Mexico-Canada Agreement ("USMCA"). The USMCA is currently subject to final ratification. Implementation of new legislative or regulatory regimes or further revisions to the USMCA could impose additional costs on the Company, decrease demand for the Company's services or otherwise negatively impact the Company, which may have a material adverse effect on the Company's business, financial condition and results of operations.

Although regulatory expenditures have not, historically, been material to Badger, such laws, regulations and guidelines are subject to change. Accordingly, it is impossible for Badger to predict the cost or effect of such future laws, regulations or guidelines on Badger's future operations.

Income Tax Matters

Badger and its subsidiaries are subject to federal, provincial and state income taxes in Canada and the United States, as applicable. While Badger works to keep itself and its subsidiaries in full compliance with all applicable legal requirements relating to federal, provincial and state legislation on income tax, sales tax, goods and services tax, excise tax and all other direct or indirect taxes including business tax, real estate tax, municipal, and other taxes, there can be no assurance that Badger and its subsidiaries will not be subject to assessment, reassessment, audit, investigation, inquiry or judicial or administrative proceedings under any such laws. As taxing regimes change their tax basis and rates, or initiate reviews of prior tax returns, Badger's liability to income tax may increase and Badger could be exposed to increased costs of taxation, which could, among other things, reduce the amount of funds available to distribute to Badger Shareholders or otherwise have a material adverse effect on Badger's business, financial condition, and results of operations.

Litigation

Legal proceedings may arise from time to time in the course of Badger's business. All industries, including the hydrovac industry, are subject to legal claims, with and without merit. Such legal claims may be brought against Badger or one or more of its subsidiaries in the future from time to time. Defence and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, such process could divert management time and effort and the resolution of any particular legal proceeding to which Badger may become subject could have a material effect on Badger's business, financial condition, and results of operations.

Cyber Security and Terrorism

Badger relies on information technology, such as computer hardware and software systems, in order to properly operate its business. In the event the Company was unable to regularly deploy software and hardware, effectively upgrade systems and network infrastructure, and take other steps to maintain or improve the efficiency and efficacy of systems, the operation of such systems could be interrupted or result in the loss, corruption, or release of data. In addition, information systems could be damaged or interrupted by natural disasters, force majeure events, telecommunications failures, power loss, acts of war or terrorism, computer viruses, malicious code, physical or electronic security breaches, intentional or inadvertent user misuse or error, or similar events or disruptions. Any of these or other events could cause interruptions, delays, loss of critical and/or sensitive data or similar effects, which could have a material adverse impact on the protection of intellectual property, and confidential and proprietary information, and on Badger's business, financial condition, and results of operations.

In the ordinary course of business, Badger collects, uses and stores sensitive data, including intellectual property, proprietary business information and personal information of employees and third parties. Despite the Company's internal controls and security measures, the Company's information systems, technology and infrastructure may be vulnerable to attacks by hackers and/or cyberterrorists or breaches due to employee error, malfeasance or other disruptions. Any such breach could compromise information used or stored on Badger's systems and/or networks and, as a result, the information could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties or other negative consequences, including disruption to Badger's operations and damage to its reputation, which could have a material adverse effect on Badger's business, financial condition, and results of operations.

The Company attempts to prevent security breaches and other related information technology risks by implementing various technology security measures, segregating control systems from our general business networks, engaging skilled employees and consultants to manage our technology applications and adopting policies and procedures as deemed appropriate. Data backup and recovery processes are in place to minimize the risk of data loss and resulting disruption of business.

In addition, Badger's assets may be the target of terrorist activities that could disrupt its ability to service customers. Badger may be required by regulators or by the future terrorist threat environment to make investments in security that cannot be predicted. The implementation of security guidelines and measures and maintenance of insurance, to the extent available, addressing such activities could increase costs. These types of events could materially adversely affect Badger's business, financial condition, and results of operations.

Foreign Currency Risk

A significant portion of the Company's activities relate to operations in the United States and are therefore exposed to foreign currency fluctuations. The Company is exposed to foreign currency fluctuations as revenues, expenses and working capital derived from its foreign operations are denominated in U.S. dollars. In addition, the Company's U.S. subsidiaries are subject to translation gains and losses on consolidation. Foreign exchange gains and losses are included in net profit except for foreign exchange gains and losses arising from the translation of the assets, liabilities, revenues and expenses of the Company's foreign operations, including the translation of foreign currency denominated assets and liabilities designated as a hedge of the Company's net investment in foreign operations, if applicable, are included in other comprehensive income. With the exception of the designation of the Company's U.S. dollar denominated debt, the Company does not maintain an active hedging program to mitigate this risk.

A significant portion of Badger's current operations and related assets are located in the United States. Risks of foreign operations include, but are not necessarily limited to, changes of laws affecting foreign ownership, government participation, taxation, royalties, duties, rates of exchange, inflation, repatriation of earnings, social unrest or civil war, acts of terrorism, extortion or armed conflict and uncertain political and economic conditions resulting in unfavourable government actions such as unfavourable legislation or regulation. While the impact of these factors cannot be accurately predicted, if any of the risks materialize, they could have a material adverse impact on the Company's business, financial condition, and results of operations.

Interest Rates

Badger has certain floating rate loans and may be negatively impacted by increases in interest rates, the effect of which increase would be to reduce the amount of cash available for operating, investing and financing related activities, including the amount of cash available for dividends.

Development of Alternative or Competing Technology and Equipment

Generally speaking, the use of hydrovac and the process of hydro excavation is not protected by patents. As such, there are no significant technological barriers to entry within the industry, and new technological advances could occur in the design of hydrovac trucks or the process of hydro excavation, or other forms of excavation at any time. Such new advancements could render hydrovac equipment obsolete, or could result in a reduction in demand for hydrovac services through the introduction of competing products that are lower in cost, perform better or are determined by the market to be a more preferable service. If Badger is not able to keep current with such changing excavation trends and technology, this could have a material adverse effect on its business, financial condition, and results of operations.

Badger depreciates its hydrovac units over a period of 10 years, a policy that is based on its current knowledge and operating experience. Newer technology or some other unforeseen circumstance could lower this life expectancy.