

Badger Infrastructure Solutions Ltd.

Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

Independent Auditor's Report

To the Shareholders and the Board of Directors of Badger Infrastructure Solutions Ltd.:

Opinion

We have audited the consolidated financial statements of Badger Infrastructure Solutions Ltd., (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2023 and 2022, and notes to the consolidated financial statements, including a summary of material accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years ended December 31, 2023 and 2022 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Revenue Recognition – Refer to Note 3 to the consolidated financial statements

Key Audit Matter Description

The company's revenue primarily arises from contracts with customers. Revenue is recognized when a customer obtains control over the goods or services at which point the performance obligations are satisfied and when the collection is reasonably assured. Badger recognizes revenue from non-destructive excavation related services, and other services.

Revenue is a key audit matter due to the significant audit effort required to perform audit procedures related to the Company's revenue recognition.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to revenue included the following, among others:

- On a sample basis, evaluated revenue transactions by obtaining and inspecting a combination of the following audit evidence: customer approved invoices, approved work tickets or quotes, cash receipts or payment history, confirmations to customers, and other applicable support.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Brian Ralofsky.

The image shows a handwritten signature in dark ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Calgary, Alberta
February 29, 2024

BADGER INFRASTRUCTURE SOLUTIONS LTD.

Consolidated Statement of Financial Position

(\$ U.S. thousands)	Notes	December 31, 2023	December 31, 2022
ASSETS			
Current Assets			
Cash and cash equivalents		8,513	5,398
Trade and other receivables	5	158,023	141,495
Prepaid expenses		8,524	9,550
Inventories	6	13,334	25,213
Income taxes receivable		7,716	—
Derivative financial instruments		3,422	—
		199,532	181,656
Non-current Assets			
Property, plant and equipment	7	358,021	298,636
Right-of-use assets	8	47,809	29,679
Derivative financial instruments		2,831	—
Intangible assets	9	23,595	21,832
Goodwill	9	1,226	1,197
		433,482	351,344
Total Assets		633,014	533,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables	10	90,019	68,831
Lease liability	11	15,083	8,751
Derivative financial instruments		—	4,203
Share-based plan liability	14	28,816	17,207
Income taxes payable		—	1,141
Dividends payable	15	4,496	4,200
		138,414	104,333
Non-current Liabilities			
Lease liability	11	32,147	18,356
Derivative financial instruments		—	1,070
Borrowings under credit facility	12	163,690	138,882
Deferred tax liability	13	53,769	47,512
		249,606	205,820
Shareholders' Equity			
Shareholders' capital	16	66,950	66,950
Contributed surplus		422	422
Accumulated other comprehensive loss		(5,767)	(3,859)
Retained earnings		183,389	159,334
		244,994	222,847
Total Liabilities and Shareholders' Equity		633,014	533,000

See accompanying Notes to the consolidated financial statements.

BADGER INFRASTRUCTURE SOLUTIONS LTD.

Consolidated Statement of Comprehensive Income

(\$ US thousands, except per share amounts)	Notes	Years ended December 31,	
		2023	2022
Revenue	17	683,799	570,812
Direct costs		492,706	431,662
Gross profit		191,093	139,150
Depreciation and amortization		69,869	59,584
General and administrative		40,794	39,194
Share-based plan expense		18,163	5,507
Operating income		62,267	34,865
Gain on sale of property, plant and equipment and right of use assets		(2,051)	(331)
Unrealized (gain) loss on derivatives		(10,130)	3,885
Finance cost	18	16,993	8,066
Foreign exchange loss		332	362
Earnings before income tax		57,123	22,883
Current income tax expense	13	9,146	5,446
Deferred income tax expense (recovery)	13	6,206	(853)
Income tax expense		15,352	4,593
Net earnings		41,771	18,290
Other comprehensive (loss) income:			
Foreign exchange differences on translation of foreign operations		(1,908)	199
Other comprehensive (loss) income		(1,908)	199
Comprehensive income		39,863	18,489
Net earnings per share			
Weighted average number of shares - basic and diluted		34,473,438	34,473,438
Basic and diluted	19 \$	1.21 \$	0.53

See accompanying Notes to the consolidated financial statements.

BADGER INFRASTRUCTURE SOLUTIONS LTD.
Consolidated Statement of Changes in Equity

<i>(\$ US thousands)</i>	Shareholders' capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total equity
At January 1, 2022	66,950	422	(4,058)	158,501	221,815
Net earnings	—	—	—	18,290	18,290
Other comprehensive income	—	—	199	—	199
Dividends	—	—	—	(17,457)	(17,457)
At December 31, 2022	66,950	422	(3,859)	159,334	222,847
Net earnings	—	—	—	41,771	41,771
Other comprehensive loss	—	—	(1,908)	—	(1,908)
Dividends	—	—	—	(17,716)	(17,716)
At December 31, 2023	66,950	422	(5,767)	183,389	244,994

See accompanying Notes to the consolidated financial statements.

BADGER INFRASTRUCTURE SOLUTIONS LTD.

Consolidated Statement of Cash Flows

(\$ US thousands)	Notes	Years ended December 31,	
		2023	2022
Operating activities			
Net earnings		41,771	18,290
Items not requiring cash and cash equivalents:			
Depreciation and amortization		69,869	59,584
Deferred income tax expense (recovery)		6,206	(853)
Gain on sale of property, plant and equipment and right of use assets		(2,051)	(331)
Finance cost		16,993	8,066
Current income tax expense		9,146	5,446
Unrealized (gain) loss on derivatives		(10,130)	3,885
Share-based plans		18,163	5,507
Unrealized foreign exchange loss		—	1,007
Cash flow from operating activities before working capital and other adjustments		149,967	100,601
Change in non-cash working capital	22	9,356	(32,605)
Income taxes paid		(18,225)	(4,310)
Income taxes recovered		233	10,629
Financial instruments paid		(1,300)	(531)
Interest paid on lease liabilities	11	(1,197)	(667)
Share-based plans paid		(7,220)	(4,788)
Cash provided by operating activities		131,614	68,329
Investing activities			
Purchase of property, plant and equipment	7	(108,194)	(65,209)
Proceeds from sale of property, plant and equipment		1,837	2,539
Proceeds from disposal of right of use assets		3,748	319
Additions to intangible asset	9	(3,816)	(1,211)
Change in non-cash working capital	22	(219)	3,616
Cash used in investing activities		(106,644)	(59,946)
Financing activities			
Borrowings under credit facility		289,627	60,851
Repayments of credit facility		(268,058)	(13,132)
Repayment of senior secured notes		—	(24,629)
Interest paid		(12,187)	(7,412)
Payment of lease liabilities	11	(13,795)	(8,352)
Dividends paid	15	(17,511)	(14,506)
Cash used in financing activities		(21,924)	(7,180)
Effect of foreign exchange rate changes on cash		69	58
Increase in cash and cash equivalents		3,115	1,261
Cash and cash equivalents, beginning of year		5,398	4,137
Cash and cash equivalents, end of year		8,513	5,398

See accompanying Notes to the consolidated financial statements.

BADGER INFRASTRUCTURE SOLUTIONS LTD.

Notes to the Consolidated Financial Statements

(All amounts in thousands of U.S. dollars, except per share amounts or as otherwise stated)

1 Incorporation and operations

Badger Infrastructure Solutions Ltd. and its subsidiaries (together “Badger” or the “Company”) provide non-destructive excavating services to utilities, industrial, construction, transportation and other industries in Canada and the United States (“U.S.”). Badger is a publicly traded company listed on the Toronto Stock Exchange (TSX; BDGI). The head office of Badger is located at Suite 400, 919-11th Avenue SW, Calgary, Alberta T2R 1P3. The registered office of Badger is located at c/o CAS Corporate Governance Services Inc., 600, 815-8th Avenue SW, Calgary, Alberta T2P 3P2.

The consolidated financial statements of the Company for the years ended December 31, 2023 and December 31, 2022 were authorized for issue in accordance with a resolution of the Board of Directors (“Board”) on February 29, 2024.

2 Significant accounting judgements, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues, expenses, gains and losses during the reporting periods. Estimates and judgements are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

A) Useful lives of 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 the 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. Badger initiated a refurbishment program to extend the useful life of a select number of non-destructive excavation units. The costs associated with this program are capitalized and are expected to extend the useful life of refurbished units by 5 years.

B) Intangible assets

Intangible assets consist of service rights acquired from the Company’s operating partners and software costs. 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.

BADGER INFRASTRUCTURE SOLUTIONS LTD.

Notes to the Consolidated Financial Statements

(All amounts in thousands of U.S. dollars, except per share amounts or as otherwise stated)

C) 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 income 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 income 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.

D) Allowance for doubtful accounts

Amounts included in allowance for doubtful accounts reflect the full lifetime expected credit losses for trade receivables. The Company determines allowances based on management's best estimate of future expected credit losses, considering historical default rates, current economic conditions, and forecasts of future economic conditions. Management has implemented additional monitoring processes in assessing the creditworthiness of customers and believes the current provision appropriately reflects the best estimate of its future expected credit losses. Significant or unanticipated changes in economic conditions could impact the magnitude of future expected credit losses.

E) 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.

F) 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.

G) 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

BADGER INFRASTRUCTURE SOLUTIONS LTD.

Notes to the Consolidated Financial Statements

(All amounts in thousands of U.S. dollars, except per share amounts or as otherwise stated)

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.

H) Functional currency

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

3 Summary of material accounting policies

The principal accounting policies applied in the preparation of these annual consolidated financial statements are set out below.

A) Basis of consolidation

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

B) Statement of compliance

These consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

C) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except as detailed in the accounting policies disclosed in Note 3. Standards and guidance issued but not yet effective for the current accounting period are described in Note 4.

D) Functional and presentation currency

These consolidated financial statements are presented in U.S. dollars. The functional currency of the Canadian operations is Canadian dollars and the U.S. operations functional currency is U.S. dollars.

E) Cash and cash equivalents

Cash includes cash and cash equivalents, which are defined as highly liquid investments with maturities of three months or less.

F) Trade and other receivables

In the normal course of its business, the Company entered into a receivables purchase agreement with a financial institution whereby it can sell eligible trade receivables to the financial institution. The Company sells trade receivables of certain designated customers in exchange for a cash payment equal to the face value of the trade receivables sold less an applicable discount. The Company retains substantially all of the risks and rewards relating to the receivables under the receivables purchase agreement, therefore, the trade receivables remain on the consolidated statement of financial position and the funding received is recognized as trade and other payables. The difference between the carrying amount of trade accounts receivables sold under the agreement and the cash received at the time of transfer is recorded in the consolidated statement of comprehensive income within finance costs.

G) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being defined to include the laid-down cost for materials on a standard cost, and, where applicable, direct labour costs and those overheads incurred in bringing the inventories to their location and condition. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence or damage.

BADGER INFRASTRUCTURE SOLUTIONS LTD.

Notes to the Consolidated Financial Statements

(All amounts in thousands of U.S. dollars, except per share amounts or as otherwise stated)

Net realizable value is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory write-downs pertaining to obsolescence and aging, and recoveries of past write-downs upon disposition are included in direct costs. The Company uses its judgment to determine which costs are necessary to make the sale considering its specific facts and circumstances, including the nature of the inventories.

H) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset, either explicitly or implicitly, and whether the supplier has a substantive substitution right for the asset;
- The Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period; and
- The Company has the right to direct the use of the identified asset.

The Company determines if a contractual arrangement is a lease at the inception of the contract term. The Company has identified leases for the following asset types: buildings and light duty trucks. The Company recognizes a right-of-use asset and a lease liability to reflect the benefit the Company obtains from the underlying asset in the lease and the requirement to pay the amounts included in the lease contract, respectively. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to decommission the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lesser of lease term or the useful life of the underlying asset, where appropriate.

The lease liability is initially measured at the present value of remaining lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability include fixed payments, variable lease payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee, and amounts owing under purchase or termination options, if the Company is reasonably certain to exercise these options. If the lease contains an extension option that the Company is reasonably certain to exercise, all payments in the renewal period are also included in determining the lease liability.

The lease liability is measured at amortized cost using the effective interest method. The amount of the liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the right-of-use asset, or is recorded on the consolidated statements of earnings if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term and low-value leases. Short-term leases are lease contracts with lease terms that are less than 12 months. Lease payments associated with these leases will be recognized as an expense on a straight-line basis over the lease term. Certain leases include both lease and non-lease components, which are generally accounted for separately. For certain equipment leases, the Company applies a portfolio approach to effectively account for the lease right-of-use assets and lease liabilities.

BADGER INFRASTRUCTURE SOLUTIONS LTD.

Notes to the Consolidated Financial Statements

(All amounts in thousands of U.S. dollars, except per share amounts or as otherwise stated)

I) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses if any. Repair and maintenance costs are recognized in the consolidated statement of comprehensive income, as incurred.

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

	Useful life
Buildings and land improvements	2 to 30 years
Office and other equipment	3 to 10 years
Trucks and other vehicles	6 to 10 years
Refurbished trucks	5 years

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

The assets' residual values, useful lives, and methods of depreciation are reviewed at the end of each reporting period, or when events or conditions occur that impact capitalized costs or useful lives and are adjusted prospectively, if appropriate.

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

J) Intangible assets

Intangible assets represent acquired service rights and costs associated with the Company's ERP and integrated systems implementation. Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

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

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

	Service rights	ERP and Software
Useful lives	Indefinite	4 to 10 years
Amortization method	No amortization	Straight-line

BADGER INFRASTRUCTURE SOLUTIONS LTD.

Notes to the Consolidated Financial Statements

(All amounts in thousands of U.S. dollars, except per share amounts or as otherwise stated)

K) Impairment of non-financial assets excluding goodwill

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

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

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

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

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

L) Provisions

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

M) Goodwill

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

N) Income taxes

Income tax expense comprises current and deferred income tax expense. Income tax expense is recognized in the consolidated statement of comprehensive income except to the extent it relates to items recognized directly in equity.

BADGER INFRASTRUCTURE SOLUTIONS LTD.

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Current income tax

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

Deferred income tax

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

Deferred income tax assets:

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

Deferred income tax liabilities:

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

K) Revenue recognition

Badger's revenue primarily arises from contracts with customers. Revenue is recognized when a customer obtains control over the goods or services at which point the performance obligations are satisfied and when the collection is reasonably assured. Badger recognizes revenue from non-destructive excavation related services, and other services.

The above mentioned performance obligations are part of contracts that have an expected duration of less than one year.

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

L) Finance cost

Finance cost comprises interest expense on borrowings on the Company's syndicated revolving credit facility, stand by fees on the Company's syndicated revolving credit facility, and finance costs relating to the Company's lease obligations. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest rate method. Finance costs also include the difference between the carrying amount of trade accounts receivables sold under a receivables purchase agreement and the cash received at the time of transfer, and interest accrued related to the Excise Tax Audit.

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M) Share-based plans

The Company has Deferred Share Units (“DSUs”), Performance Share Units (“PSUs”) and Restricted Share Units (“RSUs”), which are cash-settled share-based plans, under which it receives services from employees as consideration for cash payments.

The Company uses the market price of its shares to estimate the fair value of cash-settled awards. Fair value is established initially at the grant date and the obligation is revalued at the end of each reporting period until the awards are settled with any changes in the obligation recognized in the consolidated statement of comprehensive income. The fair value of the PSUs is adjusted for the estimate of the outcome of the performance conditions.

N) Segment reporting

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

O) Foreign currency translation

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

Assets and liabilities of entities with functional currencies other than U.S. dollars are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the month. The resulting translation adjustments are included in accumulated other comprehensive income when the settlement of which is neither planned nor likely to occur in the foreseeable future.

When settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gain or losses related to such items are recognized in other comprehensive income, and presented in accumulated other comprehensive income in equity.

P) Financial instruments

Financial assets

The classification of financial assets is based on the Company’s assessment of its business model for holding financial assets. The classification categories are as follows:

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

Financial assets measured at amortized cost are measured at cost using the effective interest method. The amortized cost is reduced by impairment losses at an amount equal to the lifetime expected credit losses that result from all possible default events over the expected life of the financial instrument. The expected credit

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loss is recognized in the consolidated statement of comprehensive income. When a trade receivable is determined to be uncollectible, it is written off against the allowance for doubtful accounts.

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

Financial liabilities

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

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

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

Fair value measurement

The company has classified its financial instrument fair values based on the required three-level hierarchy:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuations based on observable inputs other than quoted active market prices; and,
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flows methods.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement.

Derivative Financial Instruments

In 2021, the Company entered into total return swaps to manage its exposure to fluctuations in the total return of its common shares related to long-term incentive compensation plans. These cash-settled share swap transactions require the exchange of net contractual payments at maturity without the exchange of the notional principal amounts on which the payments are based. Any change in the fair value of the total return swaps is recognized as unrealized losses or gains on derivatives in the consolidated statement of comprehensive income.

Q) Equity instruments

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

4 Recently announced accounting pronouncements

IAS 1 Presentation of Financial Statements

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help a company apply materiality judgements to accounting policy disclosures. The amendments seek to help a company provide more useful accounting policy disclosures by replacing the requirement for a company to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies, as well as add guidance on how a business applies the concept of materiality in making decisions about accounting policy disclosures. The company will now have to consider both the size of the transactions, other events or conditions, and the nature of them. ‘Material’ is a defined term in IFRS and is more widely understood by users of financial statements.

In October 2022, the IASB issued amendments to clarify that the classification of liabilities as current or non-current is based solely on a company’s right to defer settlement for at least twelve months at the reporting date. The right needs to exist at the reporting date and must have substance. In addition to the amendment from January 2020 where the IASB issued amendments to IAS 1, to provide a more general approach to the presentation of liabilities as current or non-current, only covenants with which a company must comply on or before the reporting date may affect this right. Covenants to be complied with after the reporting date do not affect the classification of a liability as current or non-current at the reporting date.

The first amendment was effective January 1, 2023, and was to be applied retrospectively. Management concluded this amendment has no impact on the Company.

The second amendment is effective January 1, 2024, and is to be applied retrospectively. Management is in the process of evaluating the impact of this amendment on the Company.

Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”)

Effective January 1, 2023, the definition of accounting estimates has been amended under IAS 8. Under the amended definition, a change in an input or a change in a measurement technique is a change in accounting estimates if they do not result from the correction of prior period errors. The amendment further clarifies that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty.

Under the prior definition, IAS 8 stated that a change in accounting estimates specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. Management adopted the standard and there was no impact on the Company.

Income Taxes (“IAS 12”)

Effective January 1, 2023, amendments to IAS 12, Income Taxes, clarify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of the related asset and liability. Management concluded that these amendments have no impact on the Company.

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5 Trade and other receivables

	December 31, 2023	December 31, 2022
Trade receivables	153,591	136,398
Holdback receivables	1,167	1,273
Allowance for doubtful accounts	(2,525)	(1,405)
Total trade receivables	152,233	136,266
Accrued revenue and other receivables	5,790	5,229
Trade and other receivables	158,023	141,495

Trade receivables include \$7.2 million (December 31, 2022 - \$7.2 million) of trade accounts receivables being serviced under a receivables purchase agreement. The Company retains substantially all of the risks and rewards relating to the receivables sold, and therefore, continues to recognize the transferred accounts receivables in their entirety. The amounts repayable under the receivables purchase agreement are recorded as accounts payable (see Note 10).

Holdback receivables are amounts customers withhold paying until the completion of the contract. These amounts are agreed in advance and typically have collection terms beyond the Company's general payment terms.

Accrued revenue represents revenue for services which have been completed and for which an invoice has not yet been rendered. All such recorded amounts are considered collectable.

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

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

	December 31, 2023	December 31, 2022
Current to 90 days	137,185	120,322
Over 90 days	15,048	15,944
Total trade receivables	152,233	136,266

Movement in allowance for doubtful accounts is as follows:

	December 31, 2023	December 31, 2022
Opening balance	1,405	2,790
Additions to the allowance	3,976	1,059
Accounts written off	(2,876)	(2,345)
Amounts recovered that were previously allowed for	—	(64)
Exchange differences	20	(35)
Closing balance	2,525	1,405

6 Inventory

In 2023, the Company revised its operating model. It intends to manufacture non-destructive excavation units for its sole internal use. The accounting application of this change resulted in a reclassification of finished goods, manufacturing and spare parts, and work in progress related to non-destructive excavation units from inventory to property, plant and equipment.

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The net change in inventory reserves charged to the consolidated statement of comprehensive income and included in direct costs for the year ended December 31, 2023 was \$3.8 million (December 31, 2022 - \$0.1 million).

	December 31, 2023	December 31, 2022
Finished goods	—	2,367
Manufacturing and spare parts	13,334	17,498
Work in progress	—	5,348
Total inventory	13,334	25,213

7 Property, plant and equipment

	Land, land improvements and buildings	Equipment under construction	Office equipment and other	Trucks and other vehicles	Total
Cost					
January 1, 2022	32,971	12,955	6,581	523,456	575,963
Additions/transfers ⁽¹⁾	4,387	4,342	51	56,429	65,209
Disposals	(880)	(175)	(228)	(22,562)	(23,845)
Exchange differences	(1,212)	46	120	(9,590)	(10,636)
December 31, 2022	35,266	17,168	6,524	547,733	606,691
Additions/transfers ⁽¹⁾	2,459	1,259	1,905	102,571	108,194
Disposals	(55)	(476)	(330)	(34,372)	(35,233)
Reclassifications/adjustments ⁽²⁾	—	11,694	—	(7,211)	4,483
Exchange differences	522	10	36	3,454	4,022
December 31, 2023	38,192	29,655	8,135	612,175	688,157
Depreciation					
January 1, 2022	9,879	—	3,534	273,162	286,575
Depreciation	1,324	—	498	46,330	48,152
Disposals	(345)	—	(99)	(20,735)	(21,179)
Exchange differences	(584)	—	(168)	(4,741)	(5,493)
December 31, 2022	10,274	—	3,765	294,016	308,055
Depreciation	1,634	—	544	50,921	53,099
Disposals	(6)	—	(136)	(32,761)	(32,903)
Exchange differences	213	—	63	1,609	1,885
December 31, 2023	12,115	—	4,236	313,785	330,136
Net book value					
January 1, 2022	23,092	12,955	3,047	250,294	289,388
December 31, 2022	24,992	17,168	2,759	253,717	298,636
December 31, 2023	26,077	29,655	3,899	298,390	358,021

⁽¹⁾ The net additions of equipment under construction are included in additions/transfers.

⁽²⁾ Includes reclassification of finished goods, manufacturing and spare parts, and work in progress as a result of revised operating model (refer to Note 6), and accrual related to the Excise Tax Audit (refer to Note 13).

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8 Right-of-use assets

Badger enters into leases primarily in order to secure office and yard space for the non-destructive excavation units and for light-duty vehicles. Terms of property leases vary including the life of the lease and the existence of extension options.

Right-of-use assets

	Property	Light-duty vehicles	Total
January 1, 2022	11,818	7,142	18,960
Additions	11,656	9,510	21,166
Depreciation	(6,403)	(2,839)	(9,242)
Disposals/modifications	(973)	—	(973)
Impact of foreign exchange	(107)	(125)	(232)
December 31, 2022	15,991	13,688	29,679
Additions	15,331	21,411	36,742
Depreciation	(7,848)	(6,588)	(14,436)
Disposals/modifications	(1,110)	(3,106)	(4,216)
Impact of foreign exchange	19	21	40
December 31, 2023	22,383	25,426	47,809

9 Goodwill and intangible assets

	Service rights	ERP and software	Total intangible assets	Goodwill
Cost				
January 1, 2022	6,411	21,264	27,675	2,474
Additions	—	1,211	1,211	—
Exchange differences	(406)	(565)	(971)	(82)
December 31, 2022	6,005	21,910	27,915	2,392
Additions	—	3,816	3,816	—
Exchange differences	144	209	353	29
December 31, 2023	6,149	25,935	32,084	2,421
Amortization				
January 1, 2022	—	(4,023)	(4,023)	(1,195)
Amortization	—	(2,190)	(2,190)	—
Exchange differences	—	130	130	—
December 31, 2022	—	(6,083)	(6,083)	(1,195)
Amortization	—	(2,332)	(2,332)	—
Exchange differences	—	(74)	(74)	—
December 31, 2023	—	(8,489)	(8,489)	(1,195)
Net book value				
January 1, 2022	6,411	17,241	23,652	1,279
December 31, 2022	6,005	15,827	21,832	1,197
December 31, 2023	6,149	17,446	23,595	1,226

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Impairment testing of goodwill and intangibles with indefinite lives

For impairment testing purposes, goodwill acquired through business combinations and service rights with indefinite lives have been allocated to the Canada, Western U.S., Central U.S. and Eastern U.S. CGU's.

The Company performed the annual impairment tests of goodwill and service rights as at December 31, 2023. The recoverable amount of the Canada, Western U.S., Central U.S. and Eastern U.S. CGU's have been determined based on the higher of its fair value less cost to sell and its value in use. The value in use calculation uses post income tax cash flow projections from financial budgets approved by the Company, forecasts over a five-year period based on management's best estimates, management's estimated terminal rate of growth beyond five years based on long-range term forecast, and uses a post income tax discount rate of 11% (2022 – 11%).

No impairment related to goodwill and intangibles was recorded for the years ended December 31, 2023 or 2022.

10 Trade and other payables

	December 31, 2023	December 31, 2022
Current		
Trade payables	29,666	24,356
Accrued expenses	53,190	37,287
Receivables purchase agreement ⁽¹⁾	7,163	7,188
	90,019	68,831

⁽¹⁾ Represents amounts repayable under receivables purchase agreement.

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

11 Lease liability

	December 31, 2023	December 31, 2022
Opening balance	27,107	15,409
Additions	36,494	21,086
Interest expense	1,197	667
Lease payments	(14,992)	(9,019)
Disposals/modifications	(2,790)	(827)
Exchange differences	214	(209)
Closing Balance	47,230	27,107
Current	15,083	8,751
Long-term	32,147	18,356
Total lease liabilities	47,230	27,107

Contractual undiscounted cash flows

	December 31, 2023	December 31, 2022
Less than one year	18,880	10,895
One to five years	38,668	22,320
More than five years	—	—
Total	57,548	33,215

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Amounts recognized in net earnings

	December 31, 2023	December 31, 2022
Expenses related to short-term leases	357	1,643
Total	357	1,643

12 Debt

	December 31, 2023	December 31, 2022
Borrowings under credit facility	164,776	140,038
Less: unamortized debt issuance costs	(1,086)	(1,156)
Total long-term debt	163,690	138,882

	December 31, 2023	December 31, 2022
Syndicated revolving credit facility capacity	302,435	295,334
Less: borrowings under credit facility	(164,776)	(140,038)
Less: letters of credit	(5,020)	(3,950)
Available amount	132,639	151,346

Syndicated revolving credit facility

The Company has a C\$400.0 million (USD\$302.4 million), committed syndicated revolving credit facility (the "Credit Facility") with a syndicate of six lenders. The Credit Facility 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 U.S. operations. On September 27, 2023, the Company extended its Credit Facility by approximately one year to a 5-year term, expiring on September 27, 2028. Badger has the flexibility to expand the Credit Facility, subject to approval by the lenders, by an additional C\$150.0 million (USD\$113.4 million). Badger maintains the Credit Facility for general corporate and liquidity purposes, in addition to financing requirements, if any, related to Badger's capital expenditures.

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")/Secured Overnight Financing Rate ("SOFR") also with a tiered structure. A standby fee is paid on the unused portion of the Credit Facility on a tiered basis. Standby fees are expensed as incurred. Under the terms of the Credit Facility, the Company must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2023, and as at December 31, 2023, the Company was in compliance with all of these covenants.

The Credit Facility is collateralized by a general security interest over the Company's assets, property and undertaking, present and future. The outstanding letters of credit, which reduce the amount of available credit under the Credit Facility, support the U.S. insurance program and certain other performance bonds.

As at December 31, 2023, the Company had available \$132.6 million (December 31, 2022 - \$151.3 million) of undrawn committed borrowing facilities.

13 Income taxes

The provision for income taxes, including deferred income taxes, reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 25.3% (2022 - 24.7%). The Company's U.S.

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subsidiaries are subject to federal and state statutory tax rates of approximately 25.7% (2022 – 25.7%). The main differences are in the table below.

	December 31, 2023	December 31, 2022
Earnings (loss) before tax	57,123	22,883
Income tax expense at the Canadian statutory rate	14,464	5,642
Increase (decrease) resulting from:		
Income tax rates in foreign jurisdictions	(673)	(1,062)
Income tax rate changes	(105)	73
True-up of prior period income taxes	(139)	275
Foreign exchange differences	662	(800)
Other items	1,143	465
Income tax expense	15,352	4,593

The following table details the nature of the Company's temporary differences:

	December 31, 2023	December 31, 2022
Net deferred income tax liability		
Deferred income tax assets		
Share-based plan	7,296	4,276
Accrued liabilities	1,917	746
Lease liabilities	12,106	6,906
Salaries and wages	530	3,035
Derivative financial instrument	—	1,305
Deferred payroll taxes	—	—
Non-capital losses	3,573	1,954
Total deferred tax asset	25,422	18,222
Deferred income tax liabilities		
Property, plant and equipment	64,829	57,023
Right-of-use assets	12,035	6,801
Intangible assets	—	1,344
Share issuance costs	85	69
Prepaid expenses	679	700
Unrealized foreign exchange loss (gain)	1,563	(203)
Total deferred income tax liability	79,191	65,734
Net deferred income tax liability	53,769	47,512

The Company is subject to routine audits of its tax filing positions by the Canada Revenue Agency and the Internal Revenue Service (the "IRS"). In 2020, the Company appealed the findings of one such audit conducted by the IRS in respect of excise tax paid and payable during the 2015-2019 fiscal years (the "Excise Tax Audit"), and that appeal was heard by the IRS' Independent Office of Appeals in the fourth quarter of 2021. The matter was not able to be resolved through the appeals process, as a result Badger has filed a claim in the U.S. District Court. This matter remains unresolved at December 31, 2023. During 2023, the Company accrued a provision of \$12.8 million to trade and other payables in relation to the unresolved periods.

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14 Share-based plans

	December 31, 2023	December 31, 2022
TSX: BDGI Closing Share Price (CAD)	\$ 40.71	\$ 26.66

A) Deferred Share Unit Plan

The Deferred Share Unit (“DSU”) Plan was established to promote greater alignment of interests between officers and Shareholders of the Company. The Board may also participate in the plan whereby they will be paid 50% to 100% of the annual retainer in the form of DSUs. Pursuant to the terms of the DSU, participants are granted deferred units with a value equivalent to the value of a Badger share. The deferred units granted earn additional deferred units at the same rate as dividends on Badger common shares. DSUs are paid out in cash upon departure from the Company.

The DSU Plan is accounted for as a cash-settled plan and units vest immediately upon issuance. Compensation expense is based on the estimated fair value of the deferred units outstanding at the end of each quarter using the period closing share price, with a corresponding credit to liabilities.

The liability for deferred units outstanding and exercisable as at December 31, 2023 is \$13.2 million (December 31, 2022 - \$10.0 million). Changes in the number of deferred units under the DSU Plan were as follows:

	Units
December 31, 2021	532,522
Granted	57,172
Dividends earned	12,400
Redeemed for cash	(81,620)
Forfeited	(8,418)
December 31, 2022	512,056
Granted	61,146
Dividends earned	11,604
Redeemed for cash	(132,912)
Forfeited	(22,783)
December 31, 2023	429,111
Fully Vested as at December 31, 2023	429,111

B) Performance Share Unit Plan

The Company also has a Performance Share Unit (“PSU”) Plan for officers of the Company. Officers are awarded 50% of their annual long-term incentive compensation in PSUs, and may elect to receive up to 100%, with the remainder, if any, awarded in RSUs. The PSUs represent rights to share value based on the number of PSUs issued and achieving certain performance criteria as set out by the Board of Directors. Subject to achievement of performance criteria, under the terms of the plan PSUs awarded will vest on December 31st of the second calendar year following issuance and are recognized over their vesting period. PSUs will be settled in cash upon vesting in accordance with the achieved performance and other vesting criteria.

The PSU Plan is accounted for as a cash-settled plan. Compensation expense is based on the estimated fair value of the PSUs outstanding at the end of each quarter using the closing period share price and recognized over the vesting period, with a corresponding credit to liabilities.

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The liability for PSUs outstanding as at December 31, 2023 is \$7.2 million (December 31, 2022 - \$3.5 million). The fair value of units fully vested at December 31, 2023 is \$1.8 million (December 31, 2022 - \$2.5 million). Changes in the number of PSUs under the PSU plan were as follows:

	Units
December 31, 2021	309,580
Granted	211,825
Dividends earned	4,796
Redeemed	(102,635)
Forfeited	(26,349)
December 31, 2022	397,217
Granted	176,964
Dividends earned	8,479
Redeemed	(79,628)
Forfeited	(103,412)
December 31, 2023	399,620
Fully Vested as at December 31, 2023	58,411

C) Restricted Share Unit Plan

The company also has a Restricted Shareholder Unit Plan ("RSU"). Pursuant to the terms of the RSU, participants are granted restricted units with a value equivalent to the value of a Badger share. The restricted units granted earn additional restricted units at the same rate as dividends on Badger common shares. The restricted units granted vest equally over a period of three years from the date of the grant. Upon vesting, payment for the vested RSUs will be made by the Company to the participants.

The RSU Plan is accounted for as a cash-settled plan. Compensation expense is based on the estimated fair value of the restricted units outstanding at the end of each quarter using the closing period share price and recognized using graded vesting throughout the term of the vesting period, with a corresponding credit to liabilities.

The liability for RSUs outstanding as at December 31, 2023 is \$8.4 million (December 31, 2022 - \$3.7 million). The fair value of units fully vested at December 31, 2023 is \$5.2 million (December 31, 2022 - \$2.0 million). Changes in the number of RSUs under the RSU plan were as follows:

	Units
December 31, 2021	131,657
Granted	223,776
Dividends earned	5,655
Redeemed	(49,829)
Forfeited	(37,783)
December 31, 2022	273,476
Granted	256,345
Dividends earned	8,415
Redeemed	(110,611)
Forfeited	(50,973)
December 31, 2023	376,652
Fully Vested as at December 31, 2023	167,490

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15 Dividends payable

During the year ended December 31, 2023, the Company paid dividends of \$17.5 million (2022 - \$14.5 million) or C\$0.690 per common share (2022 - C\$0.660 per common share) and declared \$4.5 million in dividends (2022 - \$4.2 million) or C\$0.1725 per common share (2022 - C\$0.1650 per common share) to its shareholders of record at the close of business on December 31, 2023, that was paid on January 15, 2024.

Determination of the amount of cash dividends for any period is at the sole discretion of the Board and is based on certain criteria including financial performance as well as the projected liquidity and capital resource position of the Company. Dividends, if and when, are declared to shareholders of the Company on the last business day of each quarter and paid on the 15th day of the month following the declaration (or if such day is not a business day, the next following business day).

16 Shareholders' capital

A) Authorized shares

An unlimited number of voting common shares are authorized without nominal or par value.

B) Outstanding shares

As at December 31, 2023, the number of common shares outstanding was 34,473,438, unchanged from prior year. The weighted average common shares outstanding for the year ended 2023 and 2022 was 34,473,438.

17 Revenue

The following table disaggregates the Company's revenue by type of service and type of customer.

	Years ended December 31,	
	2023	2022
Non-destructive excavation service revenue – corporate	632,035	527,827
Non-destructive excavation service revenue – operating partners	18,858	20,031
Total non-destructive excavation service revenue	650,893	547,858
Other service revenue – corporate ⁽¹⁾	31,423	21,534
Other service revenue – operating partners ⁽¹⁾	1,483	1,420
Total other revenue	32,906	22,954
Total revenue	683,799	570,812

⁽¹⁾ Other revenue includes other non-destructive excavation services, truck placement fees and other administrative related revenue.

18 Finance costs

	Years ended December 31,	
	2023	2022
Borrowings under credit facility	11,541	6,890
Interest on lease liability	1,197	667
Accrued interest	3,368	—
Other	887	509
Total	16,993	8,066

BADGER INFRASTRUCTURE SOLUTIONS LTD.

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(All amounts in thousands of U.S. dollars, except per share amounts or as otherwise stated)

19 Earnings per share

Basic earnings per share ("EPS")

Basic EPS is calculated by dividing profit or loss attributable to ordinary equity holders (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. The denominator is calculated by adjusting the shares in issue at the beginning of the year by the number of shares bought back or issued during the year, multiplied by a time-weighting factor.

	Years ended December 31,	
	2023	2022
Net earnings	41,771	18,290

	Years ended December 31,	
	2023	2022
Weighted average number of common shares, basic	34,473,438	34,473,438

Diluted EPS

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of any dilutive potential shares. The effects of anti-dilutive potential shares are ignored in calculating diluted EPS.

	Years ended December 31,	
	2023	2022
Basic weighted average number of common shares	34,473,438	34,473,438
Effect of dilutive deferred share units	—	—
Weighted average number of common shares, diluted	34,473,438	34,473,438

	Years ended December 31,	
	2023	2022
Basic and diluted earnings per share	\$1.21	\$0.53

20 Financial instruments and risk management

Fair values

The Company's financial instruments recognized on the consolidated statement of financial position consist of cash and cash equivalents, trade and other receivables, income taxes receivable, derivative financial instruments, trade and other payables, dividends payable, income taxes payable and long-term debt. The fair values of these recognized financial instruments, excluding long-term debt, approximate their carrying values due to their short-term maturity.

Credit risk

Credit risk arises where a financial loss would be experienced if a counterparty to a financial asset failed to meet its contractual obligations. The Company's credit risk exposure is primarily through its trade receivables which are subject to industry credit risks. Credit risks are mitigated by the Company's large and diversified customer base across the construction, utility, transportation and industrial industries. The Company actively monitors the financial strength of its customer base through its credit process to minimize the risk of default on receivables. The Company has a due diligence process to approve credit for new and existing customers by assessing the creditworthiness of each customer. Before work is performed for the customer, its creditworthiness is assessed and a credit rating and maximum credit limit are assigned.

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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 which is 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 need for the Company to raise capital by issuing equity or obtaining additional debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

At December 31, 2023, the Company had available \$132.6 million of authorized borrowing capacity on the syndicated revolving credit facility. The credit facility matures on September 27, 2028. The Company believes it has sufficient funding through operations and the use of this facility to meet foreseeable financial obligations.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2023, based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
December 31, 2023					
Trade and other payables	90,019	—	—	—	90,019
Share-based plan liability	28,816	—	—	—	28,816
Long-term debt	—	—	163,690	—	163,690
Total	118,835	—	163,690	—	282,525

	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
December 31, 2022					
Trade and other payables	68,831	—	—	—	68,831
Share-based plan liability	17,207	—	—	—	17,207
Long-term debt	—	—	138,882	—	138,882
Total	86,038	—	138,882	—	224,920

Market risk

The significant market risk exposures affecting the financial instruments held by the Company are those related to interest rates, foreign currency exchange rates, and share prices 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 Secured Overnight Financing Rate ("SOFR") and is dependent on the nature of the borrowing. Interest rates are subject to change. 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.

The following table demonstrates the impact to earnings before income taxes if interest rates had been 1% higher and all other variables were held constant.

Years ended	December 31, 2023	December 31, 2022
Effect on earnings before income taxes	(1,621)	(1,333)

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For a hypothetical 1% decrease in interest rates, there would be an equal and opposite effect on earnings before income taxes in the table above.

Foreign exchange risk

In the normal course of operations, the Company is exposed to movement in the Canadian dollar in its Canadian operations. As a result, fluctuations in the value of the Canadian dollar relative to the United States dollar can result in foreign exchange gains and losses. The Company's Canadian operations are subject to foreign exchange gains and losses on consolidation. Realized foreign exchange gains and losses are included in net earnings while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenue and expenses of the Company's United States operations are included in other comprehensive income.

The following table demonstrates the Company's sensitivity for the above noted Canadian dollar denominated balances to a hypothetical 10% strengthening in the United States dollar against the Canadian dollar and the increased earnings before income taxes and other comprehensive income is as follows:

Years ended	December 31, 2023	December 31, 2022
Effect on earnings before income taxes	1,126	1,068
Effect on other comprehensive income	11,998	10,217

For a hypothetical 10% weakening of the Canadian dollar against the United States dollar, there would be an equal and opposite effect on earnings before income taxes and other comprehensive income in the tables above.

Share price risk

The Company entered into total return swaps to manage its exposure to fluctuations in the total return of its shares related to long-term incentive compensation plans. These cash-settled share swap transactions require the exchange of net contractual payments at maturity without the exchange of the notional principal amounts on which the payments are based. These total return swaps are not designated as hedging instruments for accounting purposes. Any change in fair value of the total return swaps is recognized as unrealized losses or gains on derivatives in the period in which the change occurs in the consolidated statement of comprehensive income. For the year ended December 31, 2023, unrealized gain on derivatives recognized was \$10.1 million (December 31, 2022 - \$3.9 million loss). At December 31, 2023, a 10% change in the share price applied to the Company's total return swaps would change earnings before income tax by approximately \$3.3 million (December 31, 2022 - \$2.1 million). For the year ended December 31, 2023, the Company recognized \$18.2 million of share-based plan expenses (December 31, 2022 - \$5.5 million). At December 31, 2023, a 10% change in the share price applied to the Company's share-based plan would change its liability and corresponding expense by \$2.9 million.

21 Capital management

The Company's strategy is to have a sufficient capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Company considers the capital structure to consist of net debt and shareholders' equity. The Company considers net debt to be total long-term debt less cash and cash equivalents. The Company seeks to maintain a balance between the level of net debt and shareholders' equity to facilitate access to

BADGER INFRASTRUCTURE SOLUTIONS LTD.**Notes to the Consolidated Financial Statements**

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capital markets to fund growth and working capital. The Company may occasionally need to increase these levels to facilitate acquisition or expansion activities. This ratio was as follows:

	December 31, 2023	December 31, 2022
Borrowings under credit facility	164,776	140,038
Lease liability	32,147	18,356
Current portion of lease liability	15,083	8,751
Total obligations	212,006	167,145
Add: issued letters of credit	5,020	3,950
Cash and cash equivalents	(8,513)	(5,398)
Net debt	208,513	165,697
Shareholders' equity	244,994	222,847
Total capitalization	453,507	388,544
Net debt to total capitalization	46%	43%

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

Under the terms of the syndicated revolving credit facility, the Company must comply with certain financial and non-financial covenants, as defined by the respective credit agreements. Throughout 2023 and as at December 31, 2023, the Company was in compliance with all its covenants. The Company's significant financial covenants are detailed in the summary below:

Ratio	December 31, 2023	December 31, 2022	Threshold
Total Debt to Compliance EBITDA Credit Facility	1.3	1.6	4.00:1 max
Interest Coverage Ratio Credit Facility	8.0	11.7	3.00:1 min

There were no changes in the Company's approach to capital management during the year.

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

Risk management is carried out by senior management and the Board of Directors.

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Notes to the Consolidated Financial Statements

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22 Statement of cash flow supplemental information

The following table provides supplemental information on the components of changes in non-cash working capital in operating and investing activities:

	Years ended December 31,	
	2023	2022
Operating activities		
Source (use) of cash:		
Trade and other receivables	(19,376)	(20,719)
Prepaid expenses	1,105	(4,051)
Inventories	(3,239)	(15,489)
Trade and other payables	30,866	7,654
Change in non-cash working capital	9,356	(32,605)
Investing activities		
Source (use) of cash:		
Trade and other payables ⁽¹⁾	(219)	3,616
Change in non-cash working capital	(219)	3,616

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

23 Segment reporting

The Company has identified three reportable segments consisting of two geographic segments (U.S. and Canada) and a Corporate segment. The U.S. and Canadian operating segments provide non-destructive excavating and related services. The following is selected information for the years ended December 31, 2023 and 2022 based on these geographic/reportable segments.

Years ended	December 31, 2023				December 31, 2022			
	Canada	U.S.	Corporate	Total	Canada	U.S.	Corporate	Total
Non-destructive excavation service revenue	89,932	560,961	—	650,893	91,072	456,786	—	547,858
Other revenue	9,578	23,328	—	32,906	9,697	13,257	—	22,954
Total revenue	99,510	584,289	—	683,799	100,769	470,043	—	570,812
Direct costs	75,987	416,719	—	492,706	74,276	357,386	—	431,662
Depreciation and amortization	15,903	53,955	11	69,869	15,502	44,039	43	59,584
General and administrative ⁽¹⁾	4,661	30,331	5,802	40,794	6,717	29,988	2,489	39,194
Unrealized (gain) loss on derivatives ⁽²⁾	—	—	(10,130)	(10,130)	—	—	3,885	3,885
Share-based plans ⁽²⁾	—	—	18,163	18,163	—	—	5,507	5,507
Finance cost ⁽²⁾	227	968	15,798	16,993	168	496	7,402	8,066
Other ⁽³⁾	154	(1,884)	11	(1,719)	(109)	137	3	31
Earnings (loss) before tax	2,578	84,200	(29,655)	57,123	4,215	37,997	(19,329)	22,883

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- (1) Included in general and administrative expenses for the corporate segment are employee, office, and other costs related to public company administration.
- (2) Share-based plans for participants in both the U.S. and Canada, unrealized (gain) loss on financial instruments, and finance costs from the Company's credit facilities are reported in the corporate segment.
- (3) Included in other are loss (gain) on sale of property, plant and equipment, and foreign exchange (gain) losses.

	Canada	U.S.	Corporate	Total
December 31, 2023				
Property, plant and equipment	99,930	258,091	—	358,021
Right of use assets	9,195	38,584	30	47,809
Intangible assets	11,806	11,789	—	23,595
Goodwill	1,226	—	—	1,226
Total assets ⁽¹⁾	167,692	464,734	588	633,014
Total liabilities ⁽¹⁾	43,643	151,765	192,612	388,020
December 31, 2022				
Property, plant and equipment	90,756	207,880	—	298,636
Right of use assets	5,836	23,518	325	29,679
Intangible assets	12,196	9,636	—	21,832
Goodwill	1,197	—	—	1,197
Total assets	178,443	354,232	325	533,000
Total liabilities ⁽²⁾	48,644	100,020	161,489	310,153

(1) Included in total assets and total liabilities for the corporate segment are derivatives asset, dividends payable, share-based plan liabilities, and borrowings under Credit Facility.

(2) Included in total liabilities for the corporate segment are dividends payable, share-based plan liabilities, derivatives liability and borrowings under Credit Facility.

24 Related party disclosure

There were no significant outstanding balances with related parties as at December 31, 2023 and December 31, 2022.

Compensation of key management personnel

The remuneration of the Board and other members of key management personnel were as follows:

Years ended	December 31, 2023	December 31, 2022
Compensation, including bonuses	5,575	6,567
Share-based payments	4,676	5,652
Total	10,251	12,219

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25 Subsidiaries

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

Name	Country of Incorporation	Percentage equity interest	
		2023	2022
Badger Daylighting (Fort McMurray) Inc.	Canada	100%	100%
Badger Edmonton Ltd.	Canada	100%	100%
Fieldtek Ltd.	Canada	100%	100%
Badger Manufacturing (Canada) Ltd.	Canada	100%	100%
Badger Leasing (Canada) Ltd.	Canada	100%	100%
Badger Daylighting Limited Partnership	Canada	100%	100%
Badger US Holdings (Canada) Ltd.	Canada	100%	100%
Badger Finance GP, ULC	Canada	100%	—
Badger Finance ULC	Canada	100%	—
McKay Badger Infrastructure Solutions Limited Partnership ⁽¹⁾	Canada	49%	—
McKay Badger Infrastructure Solutions GP Inc. ⁽¹⁾	Canada	49%	—
Badger Infrastructure Solutions USA Inc	United States of America	100%	100%
Badger Manufacturing (USA) LLC	United States of America	100%	100%
Badger Transportation LLC	United States of America	100%	100%
Badger Daylighting Corp.	United States of America	100%	100%
Badger Leasing (USA) LLC	United States of America	100%	100%
Badger Infrastructure Finance LP	United States of America	100%	—
Badger Finance (US) LLC	United States of America	100%	—
Badger Utility Solutions LLC	United States of America	100%	—
Badger Finance Hungary Kft.	Hungary	100%	100%

⁽¹⁾ Consolidated in Badger's consolidated financial statements.

26 Commitments and contingencies

The Company had the following commitments as at December 31, 2023:

	2024	2025	2026	2027	2028	Thereafter	Total
Operating leases ⁽¹⁾	1,454	1,341	1,148	522	104	—	4,569
Service contract ⁽²⁾	11,230	10,146	7,100	—	—	—	28,476
Purchase commitments ⁽³⁾	40,793	108	—	—	—	—	40,901
Total	53,477	11,595	8,248	522	104	—	73,946

⁽¹⁾ Operating leases include variable lease payments for building, office space, and light-duty trucks.

⁽²⁾ Contract with third party service providers for information technology services.

⁽³⁾ Purchase commitments include amounts related to manufacturing operations, and other committed capital expenditures. The Company has the option to cancel certain purchase commitments at its sole discretion and without penalty.