



Management's Discussion and Analysis
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023
August 3, 2023

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements and notes thereto of Badger Infrastructure Solutions Ltd. (the "Company", "Badger", "we", "our" or "us") (TSX:BDGI) as at and for the three and six months ended June 30, 2023 and 2022. This MD&A is a review of the financial results of Badger and has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") for the three and six months ended June 30, 2023. Readers should also refer to all previous public filings, including the Company's Annual Information Form and MD&A for the year ended December 31, 2022, which may be found on SEDAR+ at www.sedarplus.ca.

This MD&A is dated and has been prepared taking into consideration information available to August 3, 2023. All references to "dollars" and "\$" are to the currency of U.S. dollars 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 Infrastructure Solutions Ltd. is North America's largest provider of non-destructive excavating services. Badger works for contractors and facility owners in a broad range of infrastructure industries and in general commercial construction. Badger's customers typically operate near high concentrations of underground power, communication, water, gas and sewer lines, where safety and economic risks are high and where non-destructive excavation provides a safe alternative for certain customer excavation requirements.

The Company's key technology is the Badger HydrovacTM, which is used primarily for safe excavation around critical infrastructure and in congested underground conditions. The Badger Hydrovac uses a pressurized water stream to liquify the soil cover, which is then removed with a powerful vacuum system and deposited into a storage tank. To complement the Badger Hydrovac, the Company introduced the Badger Airvac^{TM(1)}, in late 2021. The Badger Airvac is also used for safe excavation but utilizes compressed air instead of water to loosen the cover soil before vacuuming and depositing excavation materials into a storage tank. Badger is unique in the non-destructive excavation industry because it designs and manufactures all of its hydrovac and airvac units at its plant in Red Deer, Alberta, which has an annual production capacity of more than 350 hydrovac and airvac units.

Quarterly Operational Highlights

The growing market activity and customer demand trends that Badger has experienced over the past several quarters, continued throughout the second quarter of 2023. Badger experienced meaningful year over year improvements in revenue and operating margins. Badger generated \$171.9 million in second quarter revenue compared to \$144.2 million in the previous year, representing a 19.2% increase. Increased revenues reflect the continued focus on the commercial strategy, improved truck utilization and the early impacts of a focus on price increases.

Adjusted EBITDA rose 51.1% to \$39.2 million in the second quarter of 2023, compared with \$25.9 million for the same quarter in 2022. Adjusted EBITDA margins improved 480 basis points to 22.8%, compared with 18.0% in 2022. The improvements in revenue and margins are a result of improved operating discipline across our branch network, increased asset utilization, and the scalability gained from strategic investments in sales and marketing as well as other corporate shared service functions over the past several quarters.

Badger continued to focus on improving asset utilization as revenue per truck per month⁽²⁾ ("RPT") for the quarter increased 10.5% to \$44,502, compared with 2022, while also growing its fleet by 117 units since the second quarter of 2022.

Badger generated \$0.32 in earnings per share in the second quarter of 2023, more than double the \$0.14 per share earned in the same quarter of 2022. Year to date earnings (loss) per share was \$0.40 compared to (\$0.01) per share for the first six months of 2022.

Badger manufactured 55 non-destructive excavation units during the second quarter and 112 units year to date in 2023 (2022 - 21 units and 37 units, respectively). Badger retired 12 units in the quarter and 38 units year to date (2022 - 9 units and 47 units, respectively). As of June 30, 2023, 8 non-destructive excavation units were held in finished goods inventory and Badger had 1,470 excavation units in operations.

(1) Badger Airvac is a registered trademark in Canada. The trademark is currently "pending" in the United States

(2) "Adjusted EBITDA", "Adjusted EBITDA margin" and "RPT" are not standardized financial measures prescribed by IFRS and may not be comparable to similar measures presented by other companies or entities. See "Non-IFRS Financial Measures" for additional detail on the definition and calculation of Adjusted EBITDA and Adjusted EBITDA margin and "Key Financial Metrics and Other Operational Metrics" for additional detail on the definition and calculation of RPT.

Business Outlook

The Company continues to focus on increasing revenues through its sales and national accounts commercial strategy, pricing improvements, asset utilization, and is exercising both operational and functional cost discipline to continue growing adjusted EBITDA margins. Badger has aligned its sales resources with market and customer opportunities while leveraging its existing branch network. The Company continues to see strong demand in its end markets, which include infrastructure, energy and non-residential construction.

Badger is focused on fleet management and utilization to support near-term growth needs and will continue to leverage its vertically integrated manufacturing capabilities to support its medium and long-term growth requirements. The Company's fleet is well positioned to take advantage of market demand in 2023. The Company continues to target production of between 200 and 230 non-destructive excavation units and retire between 80 and 100 units in 2023. In the second quarter of 2023, Badger initiated a refurbishment program to extend the useful life of a select number of non-destructive excavation units. These costs will be capitalized and are expected to extend the useful life of these select units by 5 years and increase the return on invested capital. In 2023, we expect to refurbish between 40 to 50 non-destructive excavation units at an average cost of approximately \$0.15 million per unit. At June 30, 2023, 14 units were undergoing refurbishment. Badger continues to be comfortable with chassis and key component availability and does not expect to be materially impacted by supply chain disruptions, based on the Company's supplier relationships and inventory planning completed in 2022.

The need for near and long-term reinvestment in North America's critical infrastructure, including the addition of new infrastructure to support sustainable energy technologies remains a growing trend across Badger's operating footprint. Badger continues to be well positioned to capture this growing market demand for non-destructive excavation across North America. Badger has managed through the recent inflationary environment by increasing its focus on sales activities, pricing improvements, fleet utilization, and operating cost management. Badger continues to see strong and growing demand for its services. Our focus on growing our customer base and national accounts program is expected to contribute to continued growth in the second half of 2023.

Financial Highlights

(\$ U.S. thousands except RPT, per share and share information)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Revenue:				
Non-destructive excavation service revenue	163,967	138,229	300,506	247,620
Other revenue	7,919	5,929	14,596	10,685
Total revenue	171,886	144,158	315,102	258,305
RPT - Consolidated (mixed currency) ⁽¹⁾	44,502	40,281	40,849	35,624
RPT - U.S. (U.S. dollars) ⁽¹⁾	45,010	40,742	41,407	35,761
RPT - Canada (Canadian dollars) ⁽¹⁾	43,060	39,095	39,287	35,275
Adjusted EBITDA ⁽¹⁾	39,151	25,910	63,137	36,592
Adjusted EBITDA per share, basic and diluted ⁽¹⁾	\$1.14	\$0.75	\$1.83	\$1.06
Adjusted EBITDA margin ⁽¹⁾	22.8%	18.0%	20.0%	14.2%
Net earnings (loss) before income tax	14,960	6,113	18,633	(591)
Net earnings (loss)	11,013	4,805	13,777	(460)
Net earnings (loss) per share, basic and diluted ⁽¹⁾	\$0.32	\$0.14	\$0.40	\$(0.01)
Cash flow from operations before working capital and other adjustments	38,864	26,226	62,850	36,689
Cash flow from operations before working capital and other adjustments per share, basic and diluted ⁽¹⁾	\$1.13	\$0.76	\$1.82	\$1.06
Total debt to Compliance EBITDA ⁽¹⁾	1.6x	2.2x	1.6x	2.2x
Capital expenditures	41,692	20,910	55,742	24,767
Dividends paid ⁽²⁾	4,427	4,469	8,633	5,897
Weighted average common shares outstanding ⁽³⁾	34,473,438	34,473,438	34,473,438	34,473,438

⁽¹⁾ "Adjusted EBITDA", "Adjusted EBITDA margin", "Compliance EBITDA", "Total debt" and "RPT" are not standardized financial measures prescribed by IFRS and may not be comparable to similar measures presented by other companies or entities. See "Non-IFRS Financial Measures" for additional detail on the definition and calculation of Adjusted EBITDA and Adjusted EBITDA margin. See "Key Financial Metrics and Other Operational Metrics" for additional details on RPT. Per share, basic and diluted measures are calculated by dividing the financial measure with the weighted average common shares outstanding for the period.

⁽²⁾ The frequency of dividend payments was changed from monthly to quarterly effective with the March 2022 dividend payment.

⁽³⁾ See "Share Capital" for additional details.

Second Quarter Highlights

For the three months ended June 30, 2023:

- Revenue of \$171.9 million was 19.2% higher than the revenue in the second quarter of 2022.
- RPT of \$44,502 improved by 10.5% compared with \$40,281 in the second quarter of 2022.
- Gross profit margin improved to 29.1% compared with 24.8% in the second quarter of 2022.
- General and administrative expenses ("G&A") were \$10.9 million or 6.4% of revenue compared with \$9.8 million or 6.8% in the second quarter of 2022.
- Adjusted EBITDA margin improved to 22.8% compared with 18.0% in the second quarter of 2022.
- Net earnings was \$11.0 million compared with \$4.8 million in the second quarter of 2022.
- Cash flow from operations was \$39.3 million compared with \$1.2 million in the second quarter of 2022.
- Total debt to Compliance EBITDA was 1.6x at June 30, 2023, unchanged from December 31, 2022 and below 2.2x at June 30, 2022.

For the six months ended June 30, 2023:

- Revenue of \$315.1 million was 22.0% higher than the revenue in the first half of 2022.
- RPT improved by 14.7% to \$40,849 compared with \$35,624 in the first half of 2022.
- Gross profit margin improved to 26.3% compared with 22.0% in the first half of 2022.
- G&A was \$19.8 million or 6.3% of revenue compared with \$20.1 million or 7.8% of revenue in the first half of 2022.
- Adjusted EBITDA margin improved to 20.0% compared with 14.2% in the first half of 2022.
- Net earnings was \$13.8 million compared with a net loss of \$0.5 million in the first half of 2022.
- Cash flow from operations was \$47.0 million compared with \$7.2 million in the first half of 2022.
- Total debt to Compliance EBITDA was 1.6x at June 30, 2023, unchanged from December 31, 2022 and below 2.2x at June 30, 2022.

Results of Operations for the Second Quarter

Adjusted EBITDA Summary

Consolidated Adjusted EBITDA (see Non-IFRS Financial Measures) for the three months ended June 30, 2023, was \$39.2 million compared with \$25.9 million in 2022.

The breakdown of Adjusted EBITDA by the Company's geographic segments is as follows:

	2023			2022		
(\$ U.S. thousands)	U.S.	Canada	Consolidated	U.S.	Canada	Consolidated
Non-destructive excavation revenue	140,107	23,860	163,967	115,581	22,648	138,229
Other services revenue	5,524	2,395	7,919	3,135	2,794	5,929
Total revenue	145,631	26,255	171,886	118,716	25,442	144,158
Direct costs	103,167	18,644	121,811	89,685	18,714	108,399
Gross profit	42,464	7,611	50,075	29,031	6,728	35,759
Gross profit margin (%)	29.2%	29.0%	29.1%	24.5%	26.4%	24.8%
G&A	9,139	1,785	10,924	9,062	787	9,849
Adjusted EBITDA	33,325	5,826	39,151	19,969	5,941	25,910
Adjusted EBITDA margin (%)	22.9%	22.2%	22.8%	16.8%	23.4%	18.0%

Non-destructive Excavation Revenue

Consolidated non-destructive excavation revenue was \$164.0 million, \$25.7 million or 18.6% higher than the prior year due to a combination of improved customer activity driven by sales and marketing investments and pricing improvements.

Non-destructive excavation revenue in the U.S. operations was \$140.1 million, 21.2% higher than the \$115.6 million generated in the prior year.

Non-destructive excavation revenue in the Canadian operations was \$23.9 million, 5.4% higher than the \$22.6 million generated in the prior year.

Other Services Revenue

Other services revenue was \$7.9 million, 33.6% higher than the \$5.9 million generated in the prior year due to an increase in customer demand related to Badger's non-hydrovac related service lines.

Revenue per Truck per Month

Consolidated RPT for the quarter was \$44,502, a 10.5% increase compared with \$40,281 in the prior year. The increase in consolidated RPT reflects Badger's continued commitment to optimize fleet and asset utilization and, to a lesser extent, the early impact of a focus on pricing improvements.

U.S. operations RPT was \$45,010, a 10.5% increase compared with \$40,742 in the prior year. Canadian operations RPT was \$43,060, a 10.1% increase compared with \$39,095 in the prior year. As at June 30, 2023, Badger had 1,470 non-destructive excavation units in its fleet compared with 1,353 as at June 30, 2022.

Direct Costs

Direct costs were \$121.8 million, or 70.9% of revenue compared with \$108.4 million or 75.2% of revenue in the prior year.

Labour related costs decreased as a percentage of revenue due to increased volume of services over the portion of our labour force that is salaried and the continued focus on operating cost management actions. Maintenance and repair expenses remained consistent as a percentage of revenue. Fuel costs decreased in dollar terms and as a percent of revenue due to lower diesel prices. The impact of lower fuel costs was offset somewhat by lower fuel surcharge revenues.

Overall, increases in direct costs were more than offset by higher volume and revenue experienced in the quarter resulting in improved operating leverage.

Gross Profit

Gross profit was \$50.1 million resulting in a gross profit margin of 29.1%, compared with \$35.8 million and 24.8% in the prior year due to higher revenue and improved operating leverage.

General and Administrative Expenses

G&A expenses were \$10.9 million or 6.4% of revenue compared with \$9.8 million or 6.8% of revenue in the prior year.

G&A expenses increased due to higher salaries and wages reflecting an increase in headcount, and increased IT costs, offset in part by lower consulting and professional fees.

Depreciation and Amortization of Property, Plant and Equipment, Right-of-Use and Intangible Assets

Depreciation and amortization expense was \$17.5 million compared with \$14.6 million in the prior year. Depreciation expense increased compared with the prior year primarily due to the increase in the average number of non-destructive excavation units.

Share-based Compensation (Recovery) Expense

Share-based compensation recovery was \$1.2 million compared with a \$1.4 million expense in the prior year. The decrease in the expense is due to a decrease in the market value of Badger's common shares during the period compared with the change in the prior year's market value. Share-based compensation expense will fluctuate based on the effects of the movement in Badger's common 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.

The Company has entered into total return swap contracts to manage the exposure to share price market risk on its cash-settled long-term incentive plan programs. All total return swap contracts are recorded at fair value. The unrealized loss on the total return swaps in the second quarter of 2023 was \$4.8 million compared with \$2.2 million in the prior year. The change in the unrealized loss is due to the change in the fair market value of Badger's common shares.

Finance Cost

Finance costs of \$3.8 million are primarily interest on borrowings under the Company's syndicated revolving credit facility (the "Credit Facility"), standby fees on the Credit Facility and finance costs associated with lease liabilities. The \$2.1 million increase in finance costs over the prior year was primarily due to higher debt balances and interest rates year over year.

As at June 30, 2023, the Company's debt obligations, excluding operating leases and outstanding letters of credit, consisted of \$166.5 million drawn on the Credit Facility, and \$39.5 million in lease liabilities.

Income Tax

Current income tax expense was \$0.5 million compared with \$0.1 million in the prior year as higher earnings exceeded the allowable tax depreciation in some jurisdictions. The change in U.S. and Canadian current income taxes is due primarily to changes in underlying taxable income. Deferred income tax expense was \$3.5 million compared with a recovery of \$1.2 million in the prior year. The change in deferred income taxes is due to a higher number of units being added to the U.S. fleet and corresponding accelerated depreciation allowed on those units.

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 remained unresolved at June 30, 2023. During the second quarter of 2023, the Company accrued a provision in the interim condensed consolidated financial statements in connection with the Excise Tax Audit.

Net Earnings

Net earnings was \$11.0 million compared to \$4.8 million in the prior year. The year-over-year increase in net earnings was a result of higher revenue, higher gross margin, lower share-based payment expense, offset in part by higher depreciation, finance costs, loss on derivatives, and higher income taxes expenses, all of which is fully described previously in this MD&A.

Other Comprehensive Loss

Total other comprehensive loss, which includes the effect of translating Canadian operations into U.S. dollars, resulted in other comprehensive loss of \$1.6 million compared with other comprehensive loss of \$0.6 million in the prior year. The change in other comprehensive loss is the result of the Canadian dollar fluctuating relative to the U.S. dollar throughout the period.

Capital Resources

Investing

Badger invested \$41.7 million in total capital expenditures during the quarter, compared with \$20.9 million in the prior year. Capital expenditures during the quarter were primarily related to the production of non-destructive excavation units. The increase in spending reflects the planned need for continued growth in trucks to support the market demand for non-destructive excavation.

For the six months ended June 30, 2023 Badger manufactured 112 non-destructive excavation units at a total cost of \$44.9 million, compared with 37 units in the same period in 2022. For the quarter ended June 30, 2023 Badger completed 55 non-destructive units at a cost of \$22.7 million compared to 21 units in the prior year. As of June 30, 2023, 8 non-destructive excavation units were held in finished goods inventory.

Badger has also begun refurbishing a select number of non-destructive excavation units by replacing key components. These costs will be capitalized and are expected to extend the useful life of these select units by 5 years and increase the return on invested capital. In the quarter ended June 30, 2023, Badger began refurbishing 14 units for a total cost to date of \$0.7 million.

Capital Expenditures

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Non-destructive excavation completed units ⁽¹⁾	38,816	15,450	49,406	16,606
Other vehicles and trailers	1,573	4,152	3,411	6,011
Buildings ⁽²⁾	783	1,204	1,946	2,046
Other	520	104	979	104
Total Capital Expenditures	41,692	20,910	55,742	24,767

⁽¹⁾ Capital costs are included in non-destructive excavation completed units when sold from the manufacturing facility to operations and placed into service. Included in non-destructive excavation completed units is \$15.8 million related to 40 non-destructive excavation units that were transferred out of inventory and placed in service during the quarter.

⁽²⁾ Additions to buildings includes expansion of the manufacturing facility in Red Deer, Alberta.

	Completed Units ⁽¹⁾	Average Manufacturing Costs
Q2 2023	55	\$413,000
Q1 2023	57	\$389,000
2022	112	\$433,000
2021	32	\$440,000
2020	85	\$333,000
2019	199	\$316,000

⁽¹⁾ Completed non-destructive excavation units in the above table exclude prototype Badger Airvacs manufactured.

The cost to build a non-destructive excavation unit will fluctuate on an annual basis due to factors such as: the number of non-destructive excavation units built; 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. Average manufacturing costs in the second quarter of 2023 were 5% lower than 2022, reflecting increased manufacturing volumes to support our continued growth, partially offset by the cumulative impacts of input component inflation relative to earlier years and a higher number of non-destructive excavation railroad units being built at a higher average cost.

Lease Liability

As at June 30, 2023, the Company had \$39.5 million in lease liabilities (December 31, 2022 – \$27.1 million) related to operating and administrative building lease arrangements primarily for yard space for non-destructive excavation operations and leases for light-duty pick-up trucks.

Liquidity and Capital Resources

	June 30, 2023	December 31, 2022
Committed credit facilities	302,115	295,334
Borrowings under Credit Facility	(166,450)	(140,038)
Letters of credit issued	(3,950)	(3,950)
Cash on hand	2,477	5,398
Available liquidity	134,192	156,744

Badger continues to maintain sufficient liquidity. The Company's Credit Facility is available for general corporate purposes, providing additional liquidity and financial flexibility should it be required. The Company is in compliance with all financial covenants associated with all lending arrangements.

Syndicated revolving credit facility

The Credit Facility is a CAD\$400.0 million (USD\$302.1 million), committed syndicated revolving 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 August 31, 2022, the Company renewed its Credit Facility for a 5-year term, expiring on August 31, 2027. Badger has the flexibility to expand the Credit Facility, subject to approval by the lenders, by an additional CAD\$150.0 million (USD\$113.3 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/Secured Overnight Financing Rate 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 June 30, 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 June 30, 2023, the Company had available \$131.7 million (December 31, 2022 - \$151.3 million) of undrawn committed borrowing facilities.

Compliance

Under the terms of the Credit Facility, the Company must comply with certain financial and non-financial covenants. Badger is restricted from declaring dividends if it is in breach of the covenants governing its credit facilities. Throughout 2023 and 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 and declare dividends. The Company does not maintain a credit rating.

The Company's significant financial covenants are detailed in the summary below:

Ratio ⁽¹⁾	June 30, 2023	December 31, 2022	Threshold
Total Debt to Compliance EBITDA Credit Facility	1.6x	1.6x	4.0:1x max
Interest Coverage Ratio Credit Facility	9.9x	11.7x	3.0:1x min

⁽¹⁾ The Interest Coverage Ratio Credit Facility is calculated as Compliance EBITDA divided by interest expense. For the twelve months ended June 30, 2023, calculated as \$107.3 million in Compliance EBITDA divided by \$10.9 million in interest expense and for the twelve months ended December 31, 2022, calculated as \$86.8 million in Compliance EBITDA divided by \$7.4 million in interest expense. Interest expense excludes interest on leases is calculated in accordance with IFRS on a trailing 12-month basis.

There were no off-balance sheet arrangements and no significant outstanding balances with related parties as at June 30, 2023.

Net Working Capital

Changes in working capital levels may result from increasing or decreasing revenue, the seasonality in operations, the timing of the collection of receivables and the payment of payables, the timing of capital expenditures, changes in the inventory of the Red Deer manufacturing facility and the impact of fluctuations in foreign currency exchange rates. Working capital was \$77.5 million at June 30, 2023 consistent with \$77.3 million at December 31, 2022.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totaled \$164.0 million as at June 30, 2023, \$22.5 million higher than the balance as at December 31, 2022, of \$141.5 million. At June 30, 2023, 90.7% of Badger's trade receivables were aged 90 days or less, largely consistent with 88.3% at December 31, 2022. The Company continues to actively manage its receivables portfolio and drive further improvements in all aspects of the cash collection cycle.

On August 31, 2022, Badger entered into a receivables purchase agreement to sell its short term trade receivables of certain designated customers. The transaction is treated as a transfer of a financial asset but does not qualify for de-recognition under IFRS. The receivables are de-recognized once the receivable is collected from the customer and transferred to the counterparty. As at June 30, 2023, Badger had sold \$8.8 million in trade receivables to the counterparty (December 31, 2022 - \$7.2 million).

The Company uses its cash and cash equivalents to purchase and manufacture property, plant and equipment, fund day-to-day operations, pay dividends, 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 various borrowing facilities. Badger's access to liquidity, through a combination of cash flows from operating activities and its various borrowing facilities, 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.

Share Capital

As at June 30, 2023, the number of common shares outstanding was 34,473,438 (December 31, 2022 – 34,473,438). The weighted average common shares outstanding at June 30, 2023 was also 34,473,438 (December 31, 2022 – 34,473,438).

As at August 3, 2023, the number of common shares outstanding remained at 34,473,438. Badger does not currently have any material financial instruments which can be converted into additional common shares.

Contractual Obligations

Refer to the Company's unaudited Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2023 for disclosure related to contractual obligations. The Company anticipates using its cash and cash equivalents, in addition to the financial capacity available under its various credit facilities to fund its contractual obligations.

(\$ thousands)	2023	2024	2025	2026	2027	Thereafter	Total
Operating leases ⁽¹⁾	628	1,184	1,073	888	312	84	4,169
Service contract ⁽²⁾	9,686	5,642	4,506	206	—	—	20,040
Purchase commitments ⁽³⁾	35,695	9,463	—	—	—	—	45,158
Total	46,009	16,289	5,579	1,094	312	84	69,367

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

⁽²⁾ Contract with third party service provider for information technology services related to the Enterprise Resource Planning.

⁽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.

The Company does not have off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity, or capital expenditures.

Selected Quarterly Financial Information

(\$ thousands, except per share amounts)	2023		2022				2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue ⁽¹⁾	171,886	143,216	149,030	163,477	144,158	114,147	121,537	136,236
Canada	26,255	22,391	24,799	29,060	25,442	21,468	23,750	24,682
U.S.	145,631	120,825	124,231	134,417	118,716	92,679	97,787	111,554
Net earnings (loss)	11,013	2,764	4,238	14,512	4,805	(5,265)	(4,619)	9,832
Net earnings (loss) per share, basic and diluted (\$)	\$ 0.32	\$ 0.08	\$ 0.12	\$ 0.42	\$ 0.14	\$ (0.15)	\$ (0.13)	\$ 0.28
Dividends paid (CAD) ⁽²⁾⁽³⁾	5,947	5,688	5,688	5,688	5,688	1,810	5,430	5,446
Dividends per share, basic and diluted (CAD) ⁽³⁾	0.1725	0.1650	0.1650	0.1650	0.1650	0.0525	0.1574	0.1577

⁽¹⁾ Refer to Note 14 - Segment reporting in the Company's unaudited Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2023 for selected information by geographic segments.

⁽²⁾ The frequency of dividend payments was changed from monthly to quarterly effective with the March 2022 dividend payment.

⁽³⁾ Dividends paid and dividends per share, basic and diluted are presented in Canadian Dollars in the table above as dividends are declared and paid in Canadian Dollars.

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

- General changes in economic growth and overall macro-economic conditions in both the U.S. and Canada;
- The execution of Badger's commercial strategy and sales and marketing function in 2022;
- Reduced customer activity levels beginning in March 2020 due to COVID-19, resulting in the curtailment of the production of non-destructive excavation units at Badger's Red Deer manufacturing facility in the second quarter of 2020 through 2022;
- The impact of the COVID-19 pandemic on both the U.S. and Canadian operations, which resulted in a broad-based slowdown of the North American economy. Revenue and underlying customer activity levels varied by region, and over time due to the impact of COVID-19 on economic and construction activity levels;
- The uneven growth levels from COVID-19 in the second half of 2021; and
- Additional investments related to the manufacture of non-destructive excavation units and an increase in working capital requirements associated with the underlying growth in the business.

Key Financial Metrics and Other Operational Metrics

"Revenue per truck per month" ("RPT") is a measure of non-destructive excavation fleet utilization. It is calculated using non-destructive excavation and non-destructive excavation related revenue only. RPT is calculated on both a consolidated basis and for each geographic segment by dividing non-destructive excavation and non-destructive excavation related revenue for each segment, by the average number of non-destructive excavation units in service in the segment during the period.

Revenue per truck per month – Consolidated (mixed currency)

(\$ thousands, except for RPT and average non-destructive excavation units)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Gross non-destructive excavation service revenue - U.S.	143,131	118,315	262,105	210,166
Gross non-destructive excavation service revenue - Canada	48,184	44,217	88,867	80,956
Total gross non-destructive excavation service revenue	191,315	162,532	350,972	291,122
Average non-destructive excavation units ⁽²⁾	1,433	1,345	1,432	1,362
RPT ⁽³⁾	44,502	40,281	40,849	35,624

Revenue per truck per month – United States

(\$ thousands, except for RPT and average non-destructive excavation units)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Total revenue	145,631	118,716	266,456	211,395
Less: Other revenue	5,524	3,135	10,163	5,628
Net non-destructive excavation service revenue	140,107	115,581	256,293	205,767
Add: Operating partner revenue	3,024	2,734	5,812	4,399
Gross non-destructive excavation service revenue	143,131	118,315	262,105	210,166
Average non-destructive excavation units ⁽²⁾	1,060	968	1,055	980
RPT ⁽³⁾	45,010	40,742	41,407	35,761

Revenue per truck per month – Canada

(\$ thousands, except for RPT and average non-destructive excavation units)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Total revenue	26,255	25,442	48,646	46,910
Less: Other revenue	2,395	2,794	4,433	5,057
Net non-destructive excavation service revenue	23,860	22,648	44,213	41,853
Add: Operating partner revenue	12,027	11,983	21,733	21,787
Gross non-destructive excavation service revenue	35,887	34,631	65,946	63,640
Foreign exchange rate ⁽¹⁾	1.3427	1.2768	1.3476	1.2721
Non-destructive excavation revenue - CAD equivalent	48,184	44,217	88,867	80,956
Average non-destructive excavation units ⁽²⁾	373	377	377	383
RPT ⁽³⁾	43,060	39,095	39,287	35,275

⁽¹⁾ Foreign exchange rate calculated on a weighted average basis for the respective period.

⁽²⁾ See "Fleet Summaries" for additional details.

⁽³⁾ RPT is calculated by taking non-destructive excavation revenue divided by the number of average trucks in service 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 non-destructive excavation units in operations at period end

	2023		2022				2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Canada	377	368	371	383	378	375	387	377
U.S.	1,093	1,027	1,016	987	975	960	984	983
Total	1,470	1,395	1,387	1,370	1,353	1,335	1,371	1,360

Average number of non-destructive excavation units in operations during the period ⁽¹⁾

	2023		2022					2021		
	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3
Canada	373	370	379	377	381	377	381	393	382	382
U.S.	1,060	1,022	1,000	1,002	981	968	972	988	983	982
Total	1,433	1,392	1,379	1,379	1,362	1,345	1,353	1,381	1,365	1,363

⁽¹⁾ The average number of non-destructive excavation units during the period is calculated using a simple average between the opening number of non-destructive excavation units in service during the period and the closing number of non-destructive excavation units in service during the period. Prior quarter comparatives have been restated to reflect the change in RPT calculation. See the Company's 2022 annual MD&A dated March 23, 2023 for details on changes to the RPT calculation. The average number of non-destructive excavation units is based on the total units in service and included in active fleet.

Marketing and Franchise Agreements

Number of Marketing and Franchise Agreements	2023		2022				2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Canada	13	13	13	13	13 ⁽¹⁾	15	15	15
U.S.	3	3	3	3	3 ⁽²⁾	2	2	2

⁽¹⁾ In Canada, three operating partner agreements were terminated, and one agreement was added during the second quarter of 2022.

⁽²⁾ In the U.S., a new franchise agreement was executed during the second quarter of 2022.

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. The Company uses these non-IFRS financial measures in addition to results prepared in accordance with IFRS. Such non-IFRS measures allow us to view certain aspects of Badger's business that, when considered alongside applicable IFRS results, may provide a more comprehensive understanding of Badger's operational and financial condition and the factors and trends affecting Badger's business. These non-IFRS financial measures are identified and defined below:

“Adjusted EBITDA” is earnings before interest, taxes, depreciation and amortization, share-based compensation, gains and losses on derivative instruments, 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, gains and losses on foreign exchange, as such gains and losses can vary significantly based on factors beyond the Company's control, and share-based compensation and gains and losses on derivative instruments 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 June 30,		Six months ended June 30,	
Adjusted EBITDA	2023	2022	2023	2022
Net earnings (loss)	11,013	4,805	13,777	(460)
Add:				
Depreciation and amortization	17,540	14,624	33,479	28,922
Share-based compensation (recovery) expense	(1,220)	1,399	5,027	2,123
(Gain) loss on sale of property, plant and equipment	(833)	(276)	(1,407)	274
Unrealized loss on derivative instruments	4,779	2,240	473	2,595
Finance cost	3,844	1,788	6,645	3,035
Foreign exchange loss	81	22	287	234
Income tax expense (recovery)	3,947	1,308	4,856	(131)
Adjusted EBITDA	39,151	25,910	63,137	36,592

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
Adjusted EBITDA	2023	2022	2023	2022
Revenue	171,886	144,158	315,102	258,305
Less:				
Direct costs	121,811	108,399	232,194	201,589
General and administrative expense	10,924	9,849	19,771	20,124
Adjusted EBITDA	39,151	25,910	63,137	36,592

“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 June 30,		Six months ended June 30,	
Adjusted EBITDA margin	2023	2022	2023	2022
Adjusted EBITDA	39,151	25,910	63,137	36,592
Revenue	171,886	144,158	315,102	258,305
Adjusted EBITDA margin	22.8%	18.0%	20.0%	14.2%

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

Compliance EBITDA is calculated as follows:

(\$ thousands)	Twelve months ended June 30,	
	2023	2022
Compliance EBITDA		
Net earnings	38,148	4,788
Add:		
Depreciation and amortization	64,141	57,532
Share-based compensation expense (recovery) net of payments	585	(4,009)
(Gain) loss on sale of property, plant and equipment	(2,012)	3,066
Unrealized loss on derivative instruments	1,763	4,735
Finance cost	11,676	5,430
Capital lease payments	(11,628)	(6,998)
Income tax expense	3,959	1,379
Unrealized foreign exchange loss (gain)	676	(248)
Compliance EBITDA	107,308	65,675

“**Total Debt**” consists of long-term debt and issued letters of credit, less cash on hand. Total Debt is used by the Company to calculate compliance with its debt covenants.

Total Debt is calculated as follows:

(\$ thousands)	June 30, 2023	December 31, 2022
Total Debt		
Borrowings under Credit Facility	166,450	140,038
Add: letters of credit	3,950	3,950
Less: cash on hand up to \$50.0 million	(2,477)	(5,398)
Total Debt	167,923	138,590

Critical Accounting Policies and Estimates

The Company’s significant accounting policies are set out in Note 3 of the 2022 audited Annual Consolidated Financial Statements. 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 judgments about matters that are inherently uncertain. The Company’s critical accounting estimates, as detailed in Badger’s annual MD&A for the year ended December 31, 2022 relate to: inventory, useful lives of property, plant and equipment, depreciation, income taxes, allowance for doubtful accounts, determining cash generating units, impairment of non-financial assets, intangible assets, goodwill and functional currency.

In the preparation of the Company’s unaudited Interim Condensed Consolidated Financial Statements, management has made judgments, estimates and assumptions that affect the recorded amounts of revenues, expenses, assets, liabilities and the disclosure of commitments, contingencies and guarantees. Estimates and judgments used are based on management’s experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the unaudited Interim Condensed Consolidated Financial Statements are prepared. Actual results could differ from these estimates. The most significant estimates and judgments used in the preparation of the Company’s unaudited Interim Condensed Consolidated Financial Statements have been set out in Note 2 of the Company’s 2022 audited Annual Consolidated Financial Statements.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure Controls and Procedures

Badger's President and CEO and its 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 June 30, 2023 and have concluded the disclosure controls and procedures are fully effective.

Internal Control over Financial Reporting

Badger's President and CEO and its 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 June 30, 2023 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 quarter ended June 30, 2023.

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 and information that contain words such as “could”, “should”, “can”, “anticipate”, “expect”, “believe”, “will”, “may”, “continues to”, “focus on”, “grow”, “target”, “trend”, “commitment” 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’s focus on cost management, sales activities and operational efficiencies and its impact on growth and on maximizing shareholder value;
- Badger’s expectations with respect to the production, retirement and refurbishment of non-destructive excavation units in 2023;
- The expectation of reinvestment in North America’s critical infrastructure and Badger’s ability to position operations to capture resulting market demand for non-destructive excavation;
- Badger’s ability to support its growth needs by managing and utilizing its fleet, and leveraging its manufacturing capabilities;
- Disclosure under the heading “Business Outlook”;
- The market conditions, demand trends and supply chain capacity anticipated by Badger throughout 2023;
- Badger’s ability to continue to grow its business, including revenue, as a result of capitalizing on the long-term growth opportunity in the North American non-destructive excavation market;
- The expected impact of Badger’s commercial strategy, pricing improvements and asset utilization on revenue;
- The anticipated impact of Badger’s refurbishment program, including the expectation that the program will extend the useful life of refurbished units and increase the return on invested capital;
- Badger’s ability to continue to manage the recent inflationary environment;
- Badger’s ability to respond to global recessionary risk;
- The expectation that Badger’s tax filing positions are appropriate;
- Badger’s focus on fleet optimization and increased utilization;
- The expectation that Badger’s focus on increasing customer diversity and on its national account programs will mitigate any market downturn;
- Badger’s management of its receivables portfolio and other improvements in its cash collection cycle; and
- Badger’s anticipated use of its cash, cash equivalents and financial capacity available under its credit facility.

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:

- Badger will maintain its financial position and financial resources will continue to be available to Badger;
- Business activity levels will continue to increase as there is continued economic recovery following the COVID-19 pandemic;
- The actions taken by Badger to protect the health and safety of its employees, customers and communities, and to mitigate the operational and financial effects of COVID-19 will continue to have the intended effects;
- The overall market for Badger’s services or its ability to provide service will not be adversely affected in the long-term by economic disruption, or other factors beyond Badger’s control such as weather, natural disasters, global events, legislation or regulatory changes and technological advances;
- There will be long-term sustained customer demand for non-destructive excavation and related services from a broad range of end use markets 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;
- Badger will realize and continue to realize the efficiencies and benefits of the executed business restructuring activities and other business improvement initiatives;
- Badger will be able to successfully implement its plans, programs, and procedures as expected; and
- Badger will obtain all labour, parts and supplies necessary to complete planned Badger non-destructive excavation unit builds at the costs and on the timeline expected.

Risks 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, which may adversely impact the labour supply and operating costs of Badger; extreme or unsettled weather patterns; and fluctuations in foreign exchange or interest rates. The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2022, which is available on SEDAR+ at www.sedarplus.ca.

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.sedarplus.ca) 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.