



Management's Discussion and Analysis
FOR THE YEAR ENDED DECEMBER 31, 2023
February 29, 2024

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited Consolidated Financial Statements and notes thereto of Badger Infrastructure Solutions Ltd. (the "Company", "Badger", "we", "our" or "us") (TSX:BDGI) as at and for the years ended December 31, 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 year ended December 31, 2023. Readers should also refer to all previous public filings, including the Company's Annual Information Form for the year ended December 31, 2023, 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 February 29, 2024. 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 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. Badger is unique in the non-destructive excavation industry because it designs and manufactures all of its hydrovac units at its plant in Red Deer Alberta, which has an annual production capacity of more than 350 hydrovac units. To complement the Badger Hydrovac, the Company has a select number of specialty units, mainly Airvacs, combo trucks and sewer and flusher units.

2023 Annual Financial and Operational Highlights

Badger delivered strong operating and financial performance in the 4th quarter, as well as the full year reflecting continued growth in customer demand in our end markets, primarily in our U.S. operations. Badger generated \$173.1 million and \$683.8 million in fourth quarter and annual revenue, up 16% and 20% respectively from 2022. Increased revenues reflected the continued focus on our commercial strategy, steady growth in our fleet and the continued impact of the pricing strategies we initiated in the second quarter of 2023.

Adjusted EBITDA⁽¹⁾ improved 23% to \$34.5 million for the quarter and 50% to \$150.3 million for the full year. Adjusted EBITDA margin improved to 19.9% for the quarter and 22.0% for the year, up from 18.8% and 17.5% in the prior year, respectively. The continued growth in Adjusted EBITDA margins are a result of pricing strategies, improved operating, functional and administrative cost discipline and the efficiencies gained from strategic investments in sales and marketing and other corporate shared services functions.

Badger improved its revenue per truck per month⁽¹⁾ ("RPT") for the year by 10% to \$43,505, compared with 2022 with our pricing initiatives and improved truck utilization more than offsetting the steady, continued increase in our truck fleet.

Badger generated \$0.14 in earnings per share in the fourth quarter of 2023, a 17% increase from the same period in 2022. Full year earnings per share of \$1.21, increased 128% from 2022.

During 2023, Badger manufactured 217 non-destructive excavation units (2022 - 112 units), retired 79 units and refurbished 19 units. As of December 31, 2023, 10 non-destructive excavation units have been completed and not yet in service and Badger had 1,534 non-destructive excavation units in operations, 10.6% more than December 31, 2022.

(1) "Adjusted EBITDA" 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 margin and "Key Financial Metrics and Other Operational Metrics" for additional detail on the definition and calculation of RPT.

2024 Business Outlook

In 2024, we expect to continue seeing strong and growing demand in our end markets, including infrastructure, utilities, and non-residential construction across all of our U.S. regions. We expect Canada to return to growth in 2024, but at a lower rate than the U.S. The Company will continue to focus on increasing revenue through our sales and national accounts commercial strategy to drive higher activity levels, capture pricing opportunities and to maintain strong utilization rates throughout our branch operations network. Badger's growing customer base and national accounts program is expected to continue to contribute to year over year growth in 2024. We also remain focused on both operational, functional and administrative scalability to drive operating leverage and continue growing Adjusted EBITDA margins and net earnings at a higher rate than revenue growth.

Badger continues to focus on fleet management and utilization to support its organic growth requirements and will continue to leverage its vertically integrated manufacturing capabilities. We plan to grow our fleet by 7% to 10% in 2024 and are well positioned to take advantage of market demand in all our regions. The Company is providing the following outlook for 2024:

	2024 Outlook
New builds	190 units to 220 units
Retirements	70 units to 90 units
Refurbishments	35 units to 45 units
Total Capital Spend⁽¹⁾	\$90 million to \$130 million

⁽¹⁾ Total capital spend for the 2024 Outlook includes the cost to manufacture a new hydrovac, refurbishments, ancillary equipment and other capital projects. It excludes shipping, licensing and taxes associated with putting new hydrovacs into service.

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.

Financial Highlights

	Three months ended December 31,		Twelve months ended December 31,	
<i>(\$ U.S. thousands except RPT, per share and share information)</i>	2023	2022	2023	2022
Revenue:				
Non-destructive excavation service revenue	163,553	143,016	650,893	547,858
Other revenue	9,593	6,014	32,906	22,954
Total revenue	173,146	149,030	683,799	570,812
RPT - Consolidated (mixed currency) ⁽¹⁾	41,924	42,064	43,505	39,649
RPT - U.S. (USD) ⁽¹⁾	42,731	41,697	44,105	39,114
RPT - Canada (CAD) ⁽¹⁾	39,540	43,039	41,782	41,061
Adjusted EBITDA ⁽¹⁾	34,462	28,076	150,299	99,956
Adjusted EBITDA per share, basic and diluted ⁽¹⁾	\$1.00	\$0.81	\$4.36	\$2.90
Adjusted EBITDA margin ⁽¹⁾	19.9%	18.8%	22.0%	17.5%
Net earnings before income tax	7,659	6,592	57,123	22,883
Net earnings	4,710	4,238	41,771	18,290
Net earnings per share, basic and diluted ⁽¹⁾	\$0.14	\$0.12	\$1.21	\$0.53
Cash flow from operations before working capital and other adjustments	34,487	28,417	149,967	100,601
Cash flow from operations before working capital and other adjustments per share, basic and diluted ⁽¹⁾	\$1.00	\$0.82	\$4.35	\$2.92
Total debt to Compliance EBITDA ⁽¹⁾	1.3x	1.6x	1.3x	1.6x
Capital expenditures	24,700	25,340	108,194	65,209
Dividends paid ⁽²⁾	4,445	4,226	17,511	14,506
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, Compliance EBITDA and Total debt. 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.

Fourth Quarter and Full Year 2023 Highlights

For the three months ended December 31, 2023:

- Revenue of \$173.1 million was 16% higher than the revenue in the fourth quarter of 2022.
- RPT of \$41,924 was consistent with \$42,064 in the fourth quarter of 2022.
- Gross profit margin improved to 26.2% compared with 25.3% in the fourth quarter of 2022.
- General and administrative expenses ("G&A") were \$10.9 million or 6% of revenue compared with \$9.6 million or 6% in the fourth quarter of 2022.
- Adjusted EBITDA margin improved to 19.9% compared with 18.8% in the fourth quarter of 2022.
- Net earnings was \$4.7 million compared with \$4.2 million in the fourth quarter of 2022.
- Cash flow from operations was \$53.1 million compared with \$41.8 million in the fourth quarter of 2022.
- Total debt to Adjusted EBITDA was 1.3x at December 31, 2023, down from 1.6x at December 31, 2022.

For the year ended December 31, 2023:

- Revenue of \$683.8 million was 20% higher than the revenue in 2022.
- RPT of \$43,505 improved by 10% compared with \$39,649 in 2022.
- Gross profit margin improved to 27.9% compared with 24.4% in 2022.
- G&A remained stable at \$40.8 million or 6% of revenue compared with \$39.2 million or 7% in 2022.
- Adjusted EBITDA margin improved to 22.0% compared with 17.5% in 2022.
- Net earnings was \$41.8 million up 2.3 times from \$18.3 million in 2022.
- Cash flow from operations was \$131.6 million, 93% higher than the \$68.3 million in 2022.
- Total debt to Adjusted EBITDA was 1.3x at December 31, 2023, down from 1.6x at December 31, 2022.

Results of Operations for the Quarter and Year Ended December 31, 2023

2023 Annual Summary

Adjusted EBITDA for the year ended December 31, 2023 was \$150.3 million, an increase of 50% compared to \$100.0 million in 2022.

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

Twelve months ended	December 31, 2023			December 31, 2022		
(\$ U.S. thousands)	U.S.	Canada	Consolidated	U.S.	Canada	Consolidated
Non-destructive excavation revenue	560,961	89,932	650,893	456,786	91,072	547,858
Other services revenue	23,328	9,578	32,906	13,257	9,697	22,954
Total revenue	584,289	99,510	683,799	470,043	100,769	570,812
Direct costs	416,719	75,987	492,706	357,386	74,276	431,662
Gross profit	167,570	23,523	191,093	112,657	26,493	139,150
Gross profit margin (%)	28.7%	23.6%	27.9%	24.0%	26.3%	24.4%
General and administrative	35,289	5,505	40,794	32,038	7,156	39,194
Adjusted EBITDA	132,281	18,018	150,299	80,619	19,337	99,956
Adjusted EBITDA margin (%)	22.6%	18.1%	22.0%	17.2%	19.2%	17.5%
Net earnings			41,771			18,290

Non-destructive Excavation Revenue

Consolidated non-destructive excavation revenue was \$650.9 million, \$103.0 million or 19% higher than the \$547.9 million in the prior year due to strong non building construction activity in most of our customer segments coupled with the continued benefits from our sales and marketing investments and pricing strategies implemented late in the second quarter of 2023.

Non-destructive excavation revenue in the U.S. operations was \$561.0 million, 23% higher than the \$456.8 million revenue generated in the prior year due to the same factors driving consolidated revenues.

Non-destructive excavation revenue in the Canadian operations was \$89.9 million, 1% lower than the \$91.1 million generated in the prior year. The decrease in revenue, gross profit and Adjusted EBITDA reflected lower activity at our Operating Partner operations and relatively flat revenue from our Corporate operations, due mainly to a slow down in the second half of 2023.

Other Services Revenue

Other services revenue was \$32.9 million, \$10.0 million higher than the \$23.0 million 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 year was \$43,505, a 10% increase compared with \$39,649 in the prior year. The increase in consolidated RPT reflects Badger's continued commitment to optimize fleet and asset utilization and the continued impacts of a focus on various pricing strategies while growing the fleet over 10%.

U.S. operations RPT was \$44,105, a 13% increase compared with \$39,114 in the prior year. Canadian operations RPT was \$41,782, a 2% increase compared with \$41,061 in the prior year.

As at December 31, 2023, Badger had 1,534 non-destructive excavation units in its fleet compared with 1,387 as at December 31, 2022.

Direct Costs

Direct costs were \$492.7 million, or 72% of revenue compared with \$431.7 million or 76% of revenue in the prior year.

Direct costs increased as a result of the higher activity levels compared to the prior year. Labour related costs and maintenance and repair expenses were higher than 2022, but decreased as a percentage of revenue due to higher volumes, continued management focus on operating costs, and the revenue impacts of pricing increases. Fuel costs decreased despite higher activity due to lower diesel prices in 2023. In the fourth quarter of 2023, Badger conducted a detailed assessment of its inventory on hand at its manufacturing facilities as part of the first year under a new inventory management system. As a result of this review, the Company recorded a \$2.7 million write down of manufacturing inventory (2022 - nil).

Gross Profit

Gross profit was \$191.1 million and gross profit margin was 28% compared with \$139.2 million and 24% in the prior year due to higher revenue as well as improved operating leverage.

General and Administrative Expenses

G&A expenses were \$40.8 million or 6% of revenue compared with \$39.2 million or 7% of revenue in the prior year. Total G&A expenses increased from the prior year due to \$0.9 million of accrued penalties related to the unresolved U.S. Excise tax audit (see "Tax Audits" section). Excluding this amount, G&A costs remained stable and have decreased as a percent of revenue.

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

Depreciation and amortization expense was \$69.9 million compared with \$59.6 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 and the accrual related to the Excise Tax Audit.

Share-based Compensation Expense

Share-based compensation expense was \$18.2 million compared with \$5.5 million in the prior year. The increase in the expense is primarily due to an increase in the market value of Badger's shares during the period compared to the prior year's market value. During the year, Badger's share price rose from CAD \$26.66 per share at December 31, 2022 to CAD \$40.71 per share at December 31, 2023. Share-based compensation expense will fluctuate based on the effects of the movement in Badger's share price, combined with the impact of normal course vesting of previously issued long-term incentive plan grants and the issuance, if any, of new long-term incentive plan grants.

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 gain on the total return swaps was \$10.1 million compared with a \$3.9 million unrealized loss in the prior year. The change in the unrealized gain is due to the change in the fair market value of Badger's shares and successfully offset 55% of the \$18.2 million 2023 share-based compensation expense. For a discussion of the risks and risk management strategies associated with financial instruments, see "Critical Accounting Policies and Estimates" and "Risk Factors to Badger" in the MD&A.

Finance Cost

Finance costs of \$17.0 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 \$8.9

million increase in finance costs was due to higher interest rates, increased borrowings on the Credit Facility, higher lease liabilities, and interest accrued in relation to the unresolved U.S. Excise tax audit (see "Tax Audits" section).

As at December 31, 2023, the Company's debt obligations, excluding the impact of operating leases and outstanding letters of credit, consisted of \$164.8 million drawn on the credit facility and \$47.2 million in lease liabilities, compared to \$140.0 million and \$27.1 million as at December 31, 2022, respectively.

Income Tax

Total income tax expense was \$15.4 million compared with \$4.6 million in the prior year. The increase in income tax expense is due primarily to higher taxable income and a higher effective tax rate due mainly to higher taxable income in jurisdictions with higher statutory tax rates.

Net Earnings

Net earnings was \$41.8 million compared to \$18.3 million in the prior year. The year-over-year increase in net earnings was predominantly due to higher gross margin, and gain on sale of property, plant and equipment and right of use assets. These were partially offset by higher depreciation, share-based plan expense (net of higher unrealized gain on derivatives), finance costs, and income taxes expense, as described previously in this MD&A.

Other Comprehensive Income (Loss)

Total other comprehensive income (loss), which includes the effect of translating Canadian operations into U.S. dollars, resulted in an other comprehensive loss of \$1.9 million compared with income of \$0.2 million in the prior year. The change in other comprehensive income is the result of the Canadian dollar fluctuating relative to the U.S. dollar through much of the period.

Fourth Quarter Summary

Three months ended	December 31, 2023			December 31, 2022		
(\$ U.S. thousands)	U.S.	Canada	Consolidated	U.S.	Canada	Consolidated
Non-destructive excavation revenue	142,602	20,951	163,553	120,311	22,705	143,016
Other services revenue	6,841	2,752	9,593	3,920	2,094	6,014
Total revenue	149,443	23,703	173,146	124,231	24,799	149,030
Direct costs	107,733	20,070	127,803	92,517	18,847	111,364
Gross profit	41,710	3,633	45,343	31,714	5,952	37,666
Gross profit margin (%)	27.9%	15.3%	26.2%	25.5%	24.0%	25.3%
General and administrative	10,056	825	10,881	7,920	1,670	9,590
Adjusted EBITDA	31,654	2,808	34,462	23,794	4,282	28,076
Adjusted EBITDA margin (%)	21.2%	11.8%	19.9%	19.2%	17.3%	18.8%
Net earnings			4,710			4,238

Consolidated revenue for the quarter was \$173.1 million, \$24.1 million or 16% higher than the \$149.0 million in the prior year. The increase is due to the higher activity levels seen in the U.S. operations earlier in the year carrying into the fourth quarter, as well as continued benefits from our sales and marketing investments and pricing strategies. This was partially offset by the decrease in non-destructive excavation revenue in the Canadian operations due to lower activity in our Operating Partners operations.

Gross profit for the quarter was \$45.3 million and gross profit margin was 26.2% compared with \$37.7 million and 25.3% in the same period of the prior year due to higher total revenue and price increases, partially offset by increased direct costs resulting from the \$2.7 million manufacturing inventory write-down.

Net earnings for the quarter was \$4.7 million compared to \$4.2 million in the prior year. The quarter-over-quarter increase was lower than the increase in Gross profit and Adjusted EBITDA primarily due to the accrual related to the U.S. Excise tax audit (see "Tax Audits" section), which resulted in higher G&A, depreciation and amortization and interest expense. Depreciation and amortization expense also increased due to a higher average number of non-destructive excavation units.

Capital Resources

Investing

Badger invested \$108.2 million in total capital expenditures during the year, compared with \$65.2 million in the prior year. Capital expenditures during the year were primarily related to the production of non-destructive excavation units. The increase in spending reflects the need for continued growth in non-destructive excavation units to support growing market demand for non-destructive excavation.

In 2023, Badger completed 217 non-destructive excavation units at a total cost of \$86.6 million, compared with 112 non-destructive excavation units in 2022. For the quarter ended December 31, 2023, Badger completed 48 non-destructive units at a cost of \$19.1 million compared to 46 units at a cost of \$19.2 million in the prior year. 212 non-destructive excavation units were placed into service in 2023, with 10 completed units not yet in service at December 31, 2023.

Capital Expenditures

(\$ thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2023	2022	2023	2022
Non-destructive excavation units ⁽¹⁾⁽²⁾	19,917	23,753	96,287	51,523
Other vehicles and trailers	4,246	58	7,544	9,248
Buildings ⁽³⁾	158	1,348	2,459	4,387
Other	379	181	1,904	51
Total Capital Expenditures	24,700	25,340	108,194	65,209

⁽¹⁾ Non-destructive excavation units consists of completed units and work-in-progress. It includes \$2.0 million (\$6.7 million year-to-date) related to 5 non-destructive excavation units (17 year-to-date) that were transferred out of inventory and placed into service during the quarter.

⁽²⁾ Non-destructive excavation units includes \$3.1 million (\$5.5 million year-to-date) of refurbishment costs incurred during the quarter.

⁽³⁾ Additions to buildings includes expansion of the manufacturing facility in Red Deer, Alberta.

	Completed Units ⁽¹⁾	Average Manufacturing Costs
2023	217	\$399,000
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 rates; and the impact of foreign currency rates as certain materials are denominated or otherwise influenced by foreign currency exchange rates. Average manufacturing costs in 2023 were 8% lower than 2022, reflecting efficiencies from increased manufacturing volumes to support our continued growth, particularly higher production volumes, partially offset by the continued inflation and a higher number of non-destructive excavation railroad units being built at a higher average cost.

Lease Liability

As at December 31, 2023, the Company had \$47.2 million in lease liabilities (December 31, 2022 – \$27.1 million) related to operating and administrative building lease arrangements, consisting primarily of yard space for non-destructive excavation operations, and leases for light-duty pick-up trucks. The increase in lease liability is driven primarily by the replacement of old light-duty trucks owned by the Company with new leased light-duty trucks. As well, lease renewals for yard space and operating buildings have seen higher rates, particularly in certain markets.

Liquidity and Capital Resources

	2023	2022
Credit facility capacity	302,435	295,334
Borrowings under credit facility	(164,776)	(140,038)
Letters of credit issued	(5,020)	(3,950)
Cash on hand	8,513	5,398
Available Liquidity	141,152	156,744

The Company's revolving credit facility is available for general corporate purposes, providing additional liquidity and financial capacity should it be required. The Company remained in compliance with all financial covenants associated with all lending arrangements.

Syndicated Revolving Credit Facility

The Company has a CAD\$400.0 million (USD\$302.4 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 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 CAD\$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/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.

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 \$141.2 million (December 31, 2022 - \$156.7 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

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 covenants under the Credit Facility. The Company does not maintain a credit rating.

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

Ratio ⁽¹⁾⁽²⁾	December 31, 2023	December 31, 2022	Threshold
Total Debt to Compliance EBITDA Credit Facility	1.3x	1.6x	4.0:1x max
Interest Coverage Ratio Credit Facility	8.0x	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 December 31, 2023, calculated as \$126.0 million in Compliance EBITDA divided by \$15.8 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 is calculated in accordance with IFRS on a trailing 12-month basis, and excludes interest paid on leases.

(2) See "Non-IFRS Financial Measures" for additional detail on the definition and calculation of Compliance EBITDA and Total Debt.

There were no off-balance sheet arrangements and no significant outstanding balances with related parties as at December 31, 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 and the impact of fluctuations in foreign currency exchange rates. Working capital was \$61.1 million as at December 31, 2023, compared with \$77.3 million as at December 31, 2022. The decrease is primarily due to lower inventory and an increase in trade and other payables, current lease liability, and share-based plan liability. This was offset in part by the continued growth in revenues and direct costs and the resulting rise in trade receivables.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totaled \$158.0 million as at December 31, 2023, \$16.5 million higher than the balance as at December 31, 2022 of \$141.5 million. As at December 31, 2023, 90% of Badger's trade receivables were aged 90 days or less compared with 88% 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.

In 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 derecognition under IFRS. The receivables are derecognized once the receivable is collected from the customer and transferred to the counterparty. As at December 31, 2023, Badger sold \$7.2 million in trade receivables to the counterparty (December 31, 2022 - \$7.2 million).

The Company uses its cash and cash equivalents to fund day-to-day operations, purchase and manufacture property, plant and equipment, service debt and 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 has ample access to liquidity, through a combination of cash flows from operating activities and its various borrowing facilities, 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 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.

As at February 29, 2024, the number of common shares outstanding was 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 audited Annual Consolidated Financial Statements 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.

	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.

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.

Tax audits

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 December 31, 2023 and a trial is currently scheduled for November 2024. During 2023, the Company accrued a provision of \$12.8 million to trade and other payables in relation to the unresolved periods. This reduced 2023 Adjusted EBITDA by \$0.9 million (Q4, 2023 - \$0.9 million) as a result of the accrual of potential associated penalties and 2023 Net Earnings before tax by \$6.7 million (Q4, 2023 - \$4.8 million) as a result of the accrual of potential associated penalties and interest expense and increased depreciation and amortization expense.

Selected Annual Financial Information ⁽¹⁾

<i>(\$ thousands, except per share amounts)</i>	2023	2022	2021
Total revenue	683,799	570,812	453,910
Net earnings (loss)	41,771	18,290	(8,737)
Net earnings (loss) per share, basic and diluted	\$1.21	\$0.53	\$(0.25)
Total assets	633,014	533,000	478,314
Total non-current liabilities	249,606	205,820	154,284
Dividends paid (CAD) ⁽²⁾	23,529	18,874	21,591
Dividends per share, basic and diluted (CAD) ⁽²⁾	\$0.68	\$0.55	\$0.62

⁽¹⁾ Selected annual information in the above table as per the Company's audited consolidated financial statements prepared in accordance with IFRS.

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

Selected Quarterly Financial Information

(\$ thousands, except per share amounts)	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue ⁽¹⁾	173,146	195,551	171,886	143,216	149,030	163,477	144,158	114,147
Canada	23,703	27,161	26,255	22,391	24,799	29,060	25,442	21,468
U.S.	149,443	168,390	145,631	120,825	124,231	134,417	118,716	92,679
Net earnings (loss)	4,710	23,284	11,013	2,764	4,238	14,512	4,805	(5,265)
Net earnings (loss) per share, basic and diluted (\$)	\$ 0.14	\$ 0.68	\$ 0.32	\$ 0.08	\$ 0.12	\$ 0.42	\$ 0.14	\$(0.15)
Dividends paid (CAD) ⁽²⁾⁽³⁾	5,947	5,947	5,947	5,688	5,688	5,688	5,688	1,810
Dividends per share, basic and diluted (CAD) ⁽³⁾	\$0.173	\$0.173	\$0.173	\$0.165	\$0.165	\$0.165	\$0.165	\$0.053

⁽¹⁾ Refer to Note 23 - Segment reporting in the Company's audited consolidated financial statements for the year ended December 31, 2023 for selected information by geographic segment.

⁽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 tables, 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 recovery of both the Canadian and the U.S. economies following the COVID-19 pandemic as well as, particularly in the U.S., the growth in investment in non building construction/infrastructure projects and the resulting growth in demand for hydrovac excavation services.
- The execution of Badger's commercial strategy and sales and marketing function in 2022;
- The implementation of Badger's pricing strategies beginning in the second half of 2023;
- 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 through 2022; 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 non-IFRS financial 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 December 31,		Twelve months ended December 31,	
	2023	2022	2023	2022
Non-destructive excavation service revenue gross - U.S.	145,883	125,341	573,193	469,363
Non-destructive excavation service revenue gross - Canada	45,668	48,677	189,022	186,743
Total Non-destructive excavation service revenue gross	191,551	174,018	762,215	656,106
Average non-destructive excavation units ⁽²⁾	1,523	1,379	1,460	1,379
RPT ⁽³⁾	41,924	42,064	43,505	39,649

Revenue per truck per month – United States

(\$ thousands, except for RPT and average non-destructive excavation units)	Three months ended December 31,		Twelve months ended December 31,	
	2023	2022	2023	2022
Total revenue	149,443	124,231	584,289	470,043
Less: Other revenue	6,841	3,920	23,328	13,257
Non-destructive excavation service revenue net	142,602	120,311	560,961	456,786
Add: Operating Partner Net Revenue	3,281	5,030	12,232	12,577
Non-destructive excavation service revenue gross	145,883	125,341	573,193	469,363
Average non-destructive excavation units ⁽²⁾	1,138	1,002	1,083	1,000
RPT ⁽³⁾	42,731	41,697	44,105	39,114

Revenue per truck per month – Canada

(\$ thousands, except for RPT and average non-destructive excavation units)	Three months ended December 31,		Twelve months ended December 31,	
	2023	2022	2023	2022
Total revenue	23,703	24,799	99,510	100,769
Less: Other revenue	2,752	2,094	9,578	9,697
Non-destructive excavation service revenue net	20,951	22,705	89,932	91,072
Add: Operating Partner Net Revenue	12,518	13,103	50,105	52,191
Non-destructive excavation service revenue gross	33,469	35,808	140,037	143,263
Foreign exchange rate ⁽¹⁾	1.3645	1.3594	1.3498	1.3035
Non-destructive excavation service revenue - CAD equivalent	45,668	48,677	189,022	186,743
Average non-destructive excavation units ⁽²⁾	385	377	377	379
RPT ⁽³⁾	39,540	43,039	41,782	41,061

⁽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 at period end

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Canada	384	387	377	368	371	383	378	375
U.S.	1,150	1,127	1,093	1,027	1,016	987	975	960
Total	1,534	1,514	1,470	1,395	1,387	1,370	1,353	1,335

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

	2023					2022				
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Canada	377	385	382	373	370	379	377	381	377	381
U.S.	1,083	1,138	1,110	1,060	1,022	1,000	1,002	981	968	972
Total	1,460	1,523	1,492	1,433	1,392	1,379	1,379	1,362	1,345	1,353

⁽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. 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			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Canada	13	13	13	13	13	13	13 ⁽¹⁾	15
U.S.	3	3	3	3	3	3	3 ⁽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 right of use assets, 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 and right of use assets 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 December 31,		Twelve months ended December 31,	
	2023	2022	2023	2022
Adjusted EBITDA				
Net earnings	4,710	4,238	41,771	18,290
Add:				
Depreciation and amortization	19,096	15,422	69,869	59,584
Share-based compensation expense	6,114	2,475	18,163	5,507
Gain on sale of property, plant and equipment and right of use assets	(322)	(546)	(2,051)	(331)
Unrealized (gain) loss on derivative instruments	(4,496)	1,249	(10,130)	3,885
Finance cost	6,438	2,763	16,993	8,066
Foreign exchange (gain) loss	(27)	121	332	362
Income tax expense	2,949	2,354	15,352	4,593
Adjusted EBITDA	34,462	28,076	150,299	99,956

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2023	2022	2023	2022
Adjusted EBITDA				
Revenue	173,146	149,030	683,799	570,812
Less:				
Direct costs	127,803	111,364	492,706	431,662
General and administrative expense	10,881	9,590	40,794	39,194
Adjusted EBITDA	34,462	28,076	150,299	99,956

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

Adjusted EBITDA margin is calculated as follows:

(\$ thousands except for percentages)	Three months ended December 31,		Twelve months ended December 31,	
	2023	2022	2023	2022
Adjusted EBITDA margin				
Adjusted EBITDA	34,462	28,076	150,299	99,956
Revenue	173,146	149,030	683,799	570,812
Adjusted EBITDA margin	19.9%	18.8%	22.0%	17.5%

“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.

(\$ thousands)	Twelve months ended December 31,	
Compliance EBITDA	2023	2022
Net earnings	41,771	18,290
Add:		
Depreciation and amortization	69,869	59,584
Share-based compensation expense net of payments	10,942	718
Gain on sale of property, plant and equipment	(2,051)	(331)
Unrealized (gain) loss on derivative instruments	(10,130)	3,885
Finance cost	16,993	8,066
Right-of-use assets lease payments	(16,714)	(9,018)
Income tax expense	15,352	4,593
Unrealized foreign exchange loss	—	1,007
Compliance EBITDA	126,032	86,794

“**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.

(\$ thousands)		
Total Debt	December 31, 2023	December 31, 2022
Borrowings under credit facility	164,776	140,038
Add: issued letters of credit	5,020	3,950
Less: cash on hand up to \$50.0 million	(8,513)	(5,398)
Total Debt	161,283	138,590

Critical Accounting Policies and Estimates

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:

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. These costs will be capitalized and are expected to extend the useful life of these select units by 5 years.

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.

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.

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.

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's judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. An impairment occurs when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the projection for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes, which requires management's judgment. Impairment of non-financial assets would be recognized in the Company's consolidated statement of comprehensive income.

Goodwill

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

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.

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.

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 December 31, 2023 and have concluded the disclosure controls and procedures are 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 December 31, 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 fourth quarter of 2023 or in the year ended December 31, 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 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 expectations with regard to demand for non-destructive excavation services across its end markets;
- Badger’s expectations regarding Canadian operations and U.S. operations in 2024;
- Badger’s expectation the timing of the trial in connection with its unresolved Federal Excise Tax audit, and the potential expense associated therewith;
- Badger’s expectations with respect to the production and retirement of non-destructive excavation and specialty units in 2024
- Badger’s continued focus on increasing revenues through its sales and national accounts commercial strategy;
- The expectation that Badger’s growing customer base and national accounts program will contribute to year over year growth;
- the expected growth of the fleet of Badger Hydrovacs;
- Badger’s continued focus on operational, functional and administrative scalability to drive operating leverage and continue growing Adjusted EBITDA margins;
- Disclosure under the heading “2024 Business Outlook”;
- Badger’s focus on cost management, sales activities, pricing increases, operational efficiencies and functional cost discipline and its impact on growth and on maximizing shareholder value;
- 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 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 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 asset optimization and increased utilization;
- 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;
- 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; loss of key customers; cybersecurity breaches; terrorism; industry competition; safety risks; and services; Badger's ability to attract and retain key personnel; reduction in customer spending; litigation; 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; reputational risks; fluctuations in fuel costs; and fluctuations in foreign exchange or interest rates. The foregoing list of risks is not exhaustive. 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, 2023, 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.

Risk Factors to Badger

An investment in Badger Shares involves a number of risks and uncertainties. This section describes the general material risks that Badger believes may impact Badger Shareholders and/or the Company. See Badger's Annual Information Form for the year ended December 31, 2023 which is filed on SEDAR+ at www.sedarplus.ca for a list of additional risk factors. If any of the following risks actually occur, Badger's business, operating results and financial condition, and the amount of cash available for distribution to Badger Shareholders, could suffer. Further, the risks described below are not the only risks that Badger faces. Additional risks not currently known to management or that are currently deemed immaterial may also have a negative impact on Badger Shareholders and/or the Company.

Risk factors include, but are not limited to, the following:

Risks Related to Badger's Industry and Operations

Reliance on Certain End Use and Geographic Markets

Badger operates across a wide range of end use infrastructure markets, as well as across a wide geographic footprint. Badger could be subject to a downturn in any of its end use segments and/or in certain geographic markets in which Badger operates.

Reductions in customer spending levels adversely affect the demand for Badger's products and services, and consequently, its revenues and operating results.

Over the past several years, Badger has effectively expanded its geographic footprint as well as diversified its customer base across a broad range of segments including the construction, utilities, transportation and industrial and, as a result, has diversified its customer demand risk. Badger continues to focus on these elements in its commercial strategies. ; however, no assurance can be provided that this expansion or diversification will be successful and a significant downturn in one or several regions or customer segments can have a material impact on revenues and operating results.

Badger also provides emergency response related services, including work related to large scale natural disasters such as hurricanes. The timing, size and nature of the services related to emergency response work performed by Badger is highly variable as a result of the non-recurring and specific nature of these type of events.

Loss of Key Customers

Badger has a number of key customers that, in aggregate, generate a significant portion of Badger's revenue. There can be no assurance that Badger's relationship with these customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, would have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Reliance on Key Suppliers

Badger sources the parts and products for the manufacture of its Badger non-destructive excavation units from a variety of suppliers, all of which may be subject to wide price variation, from time to time. Should any suppliers of Badger be unable to provide the necessary products or otherwise fail to deliver products in the quantities required or at acceptable prices, any resulting disruption or delays in the sourcing of new products or suppliers could have a material adverse effect on Badger's business, financial condition and results from operations. In addition, Badger's ability to grow will be dependent on the Company having access, at a reasonable cost and in a timely manner, to parts and products required to manufacture Badger non-destructive excavation units. No assurance can be given that the Company will be successful in maintaining the required supply of parts and products to manufacture Badger non-destructive excavation units. A significant increase in the price of any part, product, or material used in the manufacturing of such parts or products could negatively impact our profitability.

Competition

Badger operates in a highly competitive environment for non-destructive excavation services in Canada and the United States. In order to remain the leading provider of non-destructive excavation services, Badger continually enhances its safety and operational procedures to ensure they meet or exceed Badger's customers' expectations. Badger also has the in-house capabilities to continuously improve its non-destructive excavation units so that they remain safe, productive and efficient. There can be no assurance that Badger's competitors will not substantially increase the resources devoted to the development and marketing of services that compete with those of the Company, that Badger's competitors will not achieve greater market acceptance due to pricing, efficiency, safety and other factors, or that new or existing competitors will not enter the various markets in which the Company is active. Badger's customers may elect not to purchase our services if they view the Company's financial viability as unacceptable, which would cause the Company to lose customers, and may adversely affect the Company's results of operation, financial condition and reputation. There is also a risk that Badger is unable to respond in a timely or effective manner to competitive changes in the marketplace, at which point the business and financial condition of Badger could be adversely affected.

Development of Alternative or Competing Technology and Equipment

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

Badger may, from time to time, invest in and use new, or less proven, technologies or methods in the design and manufacturing of Badger non-destructive excavation units. There can be no assurances that such new technologies or methods will perform as anticipated. The failure of such new technologies or methods to perform as anticipated may have a material adverse effect on Badger's business, financial condition, and results of operations.

Expansion of Badger's Business into New Jurisdictions

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

Accordingly, Badger may from time to time expand its business into new operating jurisdictions. The expansion of the business will depend upon the ability of management to successfully implement its strategy. There is no guarantee that this business expansion will be successful. Badger will need to comply with the laws and regulations of these new jurisdictions, which may be significantly different than those the Company is accustomed to. Any failure to comply with applicable laws could result in the imposition of restrictions on the ability of Badger to conduct business in these jurisdictions, and could also

result in fines or sanctions, any or all of which could adversely affect its results of operations or financial condition. In addition, any changes in laws and regulations in these new jurisdictions could adversely affect the business, results of operations and financial condition of the Company.

Badger may expand into cities where there is insufficient economic activity, reduced capacity for growth or less qualified personnel to support our operations. The Company may encounter operating conditions in these new markets that materially differ from our current operations and customer relationships may be difficult to obtain. Also, we may not be able to apply our regional operating strategy successfully in additional cities, and it might take longer than expected or require a more substantial financial commitment than anticipated to establish operations in the additional cities.

Cyber Security and Terrorism

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

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

The Company attempts to prevent security breaches and other related information technology risks by implementing various technology security measures, segregating control systems from general business networks, engaging skilled employees and consultants to manage technology applications and adopting policies and procedures as deemed appropriate. Data backup and recovery processes are in place to minimize the risk of data loss and resulting disruption of business. Badger may also be required to invest in improved systems, software, or related services from time to time to ensure that it adequately adapts to cyber risks or security vulnerabilities.

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

Safety

Provision of non-destructive excavation services involves numerous risks including undertaking operations in dangerous conditions or confined spaces, equipment defects, malfunctions and failures, accidents caused by operator error, environmental liabilities including liability related to slurry disposal, damage to or total loss of our property or assets or injury or death of our employees or of third parties. These risks also expose Badger to potential liability for pollution and other environmental damage or destruction claims. We must also maintain a safety record which meets the thresholds set by our customers in order to qualify to perform services for them. Although Badger has (i) implemented programs that seek to ensure its operations meet or exceed established safety standards, including through extensive training of our operators and monitoring activities; (ii) developed comprehensive maintenance programs for Badger non-destructive excavation units; and (iii) placed insurance programs that meet or exceed industry standards and are intended to minimize our potential liability for safety or environmental claims, no assurance can be given that such programs will be adequate to protect against the occurrence of accidents and all resulting potential liabilities. Failure to maintain an acceptable safety record may have an adverse impact on our ability to retain and acquire customers.

Performance Obligations

Badger's success depends in large part on whether it fulfills its obligations with clients and maintains client satisfaction. If the Company fails to satisfactorily perform its obligations, or makes professional errors in the services that it provides, its clients could terminate contracts, including master service agreements, exposing the Company to loss of its reputation and risk of loss or reduced profits or, in some cases, the loss of the customer.

Moreover, if a client project is not completed as scheduled or expected, the Company may either incur significant additional costs or be held responsible for the costs incurred by the client to rectify damages due to late or insufficient completion. In addition, performance of projects can be affected by a number of factors beyond the Company's control, including unavoidable delays due to government regulation or inaction, inability to obtain financing, weather conditions, unavailability of vendor materials, changes in project scope of services requested by clients, industrial accidents, environmental hazards, labour disruptions and other factors. To the extent these events occur, the total cost of the project could exceed estimates and the Company could experience reduced profits or, in some cases, incur a loss on a project, which may reduce or eliminate overall profitability.

Foreign Currency and Operations Risk

A portion of the Company's activities relate to operations in Canada and are therefore exposed to foreign currency fluctuations. The Company is exposed to foreign currency fluctuations as revenues, expenses and working capital derived from its foreign operations are denominated in Canadian dollars. In addition, the Company's Canadian subsidiaries are subject to translation gains and losses on consolidation. Foreign exchange gains and losses are included in net earnings except for foreign exchange gains and losses arising from the translation of the assets, liabilities, revenues and expenses of the Company's foreign operations.

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

Litigation

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

Interruptions to Internal Facilities

Badger's manufacturing and storage facilities are subject to the risk of critical equipment breakdown or failure, safety shutdowns and lower-than-expected levels of efficiency or operational performance due to the deterioration of assets from use or age, design flaws and/or related modification requests from original equipment manufacturers and service providers, errors in the operation or maintenance of these facilities or moderate to severe damage to these facilities due to fire or other natural disasters, among other things. While Badger maintains sufficient insurance to mitigate the financial impact of such events as much as possible, such events and the resulting conditions could cause harm to Badger's employees or property, increased capital expenditures, and production disruptions, among other things, and could have a material adverse impact on Badger's operating and financial results.

Scheduled and Unscheduled Maintenance

Much of Badger's assets, including the non-destructive excavation units, are subject to regularly scheduled maintenance or may require additional unscheduled downtime for unanticipated maintenance or repairs. Scheduled and unscheduled maintenance reduces Badger's revenues and increases its operating expenses during the period of time that our equipment is not operating. Furthermore, material unanticipated costs and delays may be incurred in scheduled and unscheduled maintenance which may negatively impact Badger's results of operations.

Fluctuations in Weather and Seasonality

Badger's operating results have been, and are expected to continue to be, subject to fluctuations on a quarterly basis due to a variety of factors including changes in weather conditions and seasonality. The seasonal nature of non-destructive excavation services requires Badger to estimate market demand for different seasons and prepare accordingly by hiring and training operators sufficiently in advance of demand materializing. While management takes into account several factors in estimating market demand, there can be no assurance that Badger will recover such additional expenditures or that the estimates made by management in respect of demand will materialize, or materialize on the timing anticipated. Additionally, in the western United States, Badger has, in the past, been restricted by the imposition of government regulations from conducting its work in environmentally sensitive areas during the mating seasons of certain animals and birds. This has had a negative effect on Badger's results. As such, changes in the weather and seasonality may, depending on the location and nature of the event, have either a positive or negative effect on Badger's operating and financial results.

Disclosure Controls and Procedures

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO by others within the Company, particularly during the period in which the annual and interim filings of the Company are being prepared, in an accurate and timely manner in order for the Company to comply with its disclosure and financial reporting obligations and in order to safeguard the Company's assets. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met.

Fluctuations in Fuel Costs

The price and supply of fuel fluctuates considerably based on events beyond the Company's control, including, among others, geopolitical developments, supply and demand for oil and gas, actions by oil and gas producers and associated organizations, war and unrest in oil producing countries and regional production patterns. As fuel is necessary to operate our fleet of non-destructive excavation units, price escalations for fuel increase our operating expenses and may adversely affect the business and financial condition of Badger.

Risks Relating to Badger's Human Capital

Dependence on Key Personnel

If Badger is unable to retain executive officers and key management employees, the Company's business, financial condition and results of operations could be adversely affected. Badger is highly dependent upon the services of our executive officers and key management employees, including our CEO. While management and the Board continue to be focused on succession planning with respect to senior management personnel, there is no guarantee that such efforts will be successful. Although we strive to reduce the potential negative impact of any such changes, the loss of any executive officers or key management employees could result in disruptions to the Company's operations. In addition, hiring, training, and successfully integrating replacement personnel, whether internal or external, could be time consuming, may cause additional disruptions to our operations, and may be unsuccessful, which could negatively impact our business, financial condition and results of operations.

Availability and Cost of Qualified Labour

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

A significant proportion of Badger's workforce is comprised of operators for its Badger non-destructive excavation units, who are required to hold commercial driver's licenses. Badger hires and trains these operators over a broad range of geographies, and its ability to recruit and retain drivers with the necessary skills, including commercial driver's licenses, is subject to local and regional labour market conditions. Badger remains focused on front line leadership training, a robust health and safety culture in addition to other programs to help retain our skilled operators. However, Badger remains at risk of attracting and retaining its skilled work force.

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

Financial Risks and Risks Relating to Badger's Capital Requirements and Financing

Market Price of Badger Shares

The value of Badger Shares is subject to volatility, which is often based on factors related and unrelated to the financial performance of Badger. The price of Badger Shares could fluctuate in response to variations in Badger's operating results, financial condition, liquidity, and other factors. Factors unrelated to Badger's performance that could also affect the price include domestic and global macroeconomic trends, government infrastructure spending, international financial markets and economic uncertainty, and market perceptions of the attractiveness of particular industries and business that may provide services to such industries.

Cash Dividends are Not Guaranteed

Although the Company intends to pay cash dividends these payments are not assured and may be reduced or suspended. Effective with its March 2022 dividend, the Board approved a change in the frequency of Badger's cash dividend payment from monthly to quarterly.

The ability of the Company to pay dividends and the actual amount of such dividends will be dependent upon numerous factors including, but not limited to, Badger's financial performance, debt covenants and obligations, working capital requirements and future capital requirements. Under the terms of Badger's credit facilities, Badger is restricted from declaring dividends or distributing cash if Badger is in breach of its debt covenants. As at the date of this MD&A, Badger is in compliance with all of its covenants. Moreover, Badger must comply with the requirements of the Alberta Business Corporations Act, which states that a corporation shall not declare or pay a dividend if there are reasonable grounds for believing that (a) the corporation is, or would after the payment be, unable to pay its liabilities as they become due or (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes.

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

The market value of the Badger Shares may decline if the Company is unable to meet its cash dividend targets in the future and that decline may be significant. Dividend payments may be reviewed and adjusted from time to time by the Board to reflect current business conditions. The Badger Shares are not a source of guaranteed income and Badger Shareholders should be aware that they bear the risk that the frequency and amounts of dividends may fluctuate or be interrupted.

It is important for anyone making an investment in Badger Shares to consider the particular risk factors that may affect both the Company and the industry, as described herein, in which it operates and which may therefore affect the stability of the dividend payments on the Badger Shares. Badger has not obtained a stability rating for the Badger Shares and does not anticipate doing so in the foreseeable future.

Debt Financing

The degree to which the Company is financially leveraged could have important consequences to the Company and Badger Shareholders.

The ability of the Company to pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing Badger's indebtedness. The degree to which Badger is leveraged could have important consequences to Badger, including: the ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of Badger's cash flow from operations may be dedicated to the payment of the principal and interest on its indebtedness, thereby reducing funds available for future operations and distributions; certain of Badger's borrowings may be at variable rates of interest, which exposes it to the risk of increased interest rates; and Badger may be vulnerable to economic downturns. Also, there can be no assurance that Badger will continue to generate sufficient cash flow from operations to meet required interest and principal payments. Further, Badger is subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of such financing may not be as favourable as the terms of its existing indebtedness. These factors may adversely affect the frequency or amounts of dividends paid.

Badger's syndicated revolving credit facility is collateralized by a general security interest over the Company's assets, property and undertaking, present and future. The credit facility contains terms and covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Badger to create liens or other encumbrances, to pay dividends on its securities or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with other entities. In addition, the credit facilities contain a number of financial covenants that require Badger to meet certain financial ratios and tests. A failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, could result in a reduction or termination of Badger's dividends, and may permit acceleration of the relevant debt. If the indebtedness under the credit facility was to be accelerated, there can be no assurance that assets of the Company would be sufficient to repay that indebtedness and we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional financing. Badger's ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. Badger may not be able to engage in any of these activities or engage in these activities on desirable terms, which could have a material adverse effect on the Company's business and financial condition.

In addition to indebtedness owing under Badger's credit facility, the Company enters into various leases in the normal course of business, primarily related to the leasing of operating and administrative buildings. Terms and conditions associated with the lease arrangements would be consistent with industry norms. There is no lease liability associated with the Company's light-duty vehicle leases as the full consideration of the underlying lease is paid at the inception of the lease.

As at December 31, 2023, Badger's outstanding debt was \$212.0 million including:

- \$164.8 outstanding pursuant to its credit facility, which does not include \$5.0 million in outstanding letters of credit and \$1.1 million in unamortized debt issuance costs; and

- \$47.2 million in lease liabilities.

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. Badger's credit risk exposure is primarily through its trade receivables which are subject to industry credit risks. A portion of the Company's accounts receivable are with customers or counterparties involved in the oil and natural gas industry, whose revenues may be affected by fluctuations in oil and natural gas prices, economic conditions, environmental regulations, government policy, royalty rates and geopolitical factors. Accordingly, collection of these receivables could be influenced by economic factors affecting this industry. Badger mitigates credit risks by: (i) maintaining a large and diversified customer base across the utility, petroleum and construction industries; (ii) actively monitoring the financial strength of its customer base through credit processes to minimize the risk of default on receivables; (iii) relying on a due diligence process to approve credit for new and existing customers by assessing the creditworthiness of each customer; and (iv) by insuring its trade receivables portfolio. Badger cannot assure that these mitigation efforts will be successful in mitigating its credit risk exposure.

Credit Market Instability

Instability of the credit markets and the resulting effects on the economy could have a material adverse effect on Badger's operating results. If the credit markets and the economy weaken, Badger's business, financial results, and results of operations could be materially and adversely affected, especially if consumer confidence declines and domestic spending decreases. We may need to incur indebtedness, which may include drawing on our credit facility, or issue debt securities in the future to fund working capital requirements, make investments, or for general corporate purposes. Additionally, stresses in the credit market causes uncertainty in the equity markets, which may result in volatility of the market price for Badger's securities.

Global Financial Conditions

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

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

Additionally, the agreements governing the Company's various credit facilities impose certain operating and financial covenants on the Company that may prevent the Company from pursuing certain business opportunities and restrict its ability to operate its business. The Company's ability to comply with these covenants will likely be affected by events beyond its control, and the Company cannot assure that it will satisfy those requirements. If the Company's financial performance results in a breach of any existing or future financial covenants, access to financing could be restricted and/or all or a portion of the Company's debt could become due on demand.

Interest Rates

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

Income Tax Matters

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

Legal, Regulatory, General Economic and Political Risks

Climate Change Legislation and Related Regulatory Initiatives

In recent years, the United States Congress has considered legislation to reduce emissions of greenhouse gases (“GHGs”). However, it is uncertain if either house of Congress will pass comprehensive climate change legislation in the near future, although energy legislation and other regulatory initiatives are expected to be proposed that may be relevant to GHG emissions issues. In addition, some states are addressing GHG emissions, primarily through the development of emission inventories or regional GHG cap and trade programs.

In Canada, several provinces and the Government of Canada have adopted legislation to reduce, cap or tax GHG emissions. Depending on the particular program, Badger may be required to reduce GHG emissions, pay a carbon tax or purchase and surrender allowances or offsets for GHG emissions resulting from Badger’s operations. Independent of Congress, the United States Environmental Protection Agency (“EPA”) has adopted regulations controlling GHG emissions under its existing authority under the Clean Air Act (“CAA”). For example, following its findings that emissions of GHGs endanger human health and the environment because such emissions contributed to warming of the earth’s atmosphere and other climatic changes, EPA has adopted regulations under existing provisions of the CAA that, among other things, establish construction and operating permit reviews for GHG emissions from certain large stationary sources that are also potential major sources for conventional pollutants. In addition, EPA has adopted rules requiring annual monitoring and reporting of GHG emissions from specified production, processing, transmission and storage facilities in the United States.

Also, the United States and Canada are among 197 nations that are parties to the Paris Agreement, an international climate change agreement that calls for countries to set GHG emissions targets and the measures each country will use to achieve those targets. Although it is not possible at this time to predict how new laws in the United States or Canada that address GHG emissions will impact Badger’s business, any such future laws could require Badger to incur costs and delay or restrict GHG emissions from new or modified sources. The reductions may not be technically or economically feasible and the failure to meet such reduction requirements or other compliance mechanisms may materially adversely affect Badger’s business and result in fines, penalties and the suspension of operations.

There have also been increasing efforts in recent years to influence the investment community, including investment advisors and certain sovereign wealth, pension and endowment funds, promoting divestment of fossil fuel equities and pressuring lenders to limit funding to companies engaged in the extraction of fossil fuel reserves. Such environmental activism and initiatives aimed at limiting climate change and reducing air pollution could interfere with our business activities, operations, and ability to access capital.

As well, equipment from suppliers which can meet future emission standards may not be available on an economic basis and other compliance methods of reducing emissions to levels required in the future may significantly increase Badger’s operating costs or reduce output. Emission reductions or offset credits may not be available on an economic basis. In addition, limitations on GHG emissions could adversely affect a number of Badger’s customers thereby delaying or decreasing the demand for Badger’s products and services.

Although it is not currently possible to predict how any such proposed or future GHG legislation will impact Badger’s business, any regulation of GHG emissions in areas in which Badger conducts business could result in increased compliance costs or additional operating restrictions to Badger’s exploration and production customers which could have a significant adverse effect on Badger’s operations.

Compliance with Government and Related Regulations

Badger’s operations are subject to a variety of federal, provincial, state and local laws, regulations and guidelines. Such laws and regulations relate to, among other things, health and safety, environment and emissions, the excavation, transportation and disposal of customer’s materials and the manufacture of Badger non-destructive excavation units used in the Company’s operations, foreign trade, rules imposed by the TSX and Canadian securities regulators, and reporting obligations. While Badger believes that it is currently in compliance with all applicable government standards and regulations, there can be no assurance that all of Badger’s business will be able to continue to comply with all applicable standards and regulations that may be in place in the future.

The laws and regulations applicable to Badger’s operations provide that Badger could be liable for fines, penalties and other costs in the event that it is found to not be in compliance with those laws and regulations. A failure to comply with such laws and regulations could result in, among other things, investigations into Badger’s operations or the suspension or revocation of operating permits and damage Badger’s reputation and have a negative effect on Badger’s operating and financial results. Private parties may also pursue legal actions against us based on alleged non-compliance with or liability under certain of these laws, rules and regulations. Further, any changes in the current legal and regulatory environment could impact industry activity and the demands for our products and services, the scope of products and services that we provide, or our cost structure required to provide our products and services, or the costs incurred by our customers.

General Economic And Business Risk

In addition to the risk factors outlined elsewhere in this MD&A, Badger's business is dependent on a number of general economic and business factors that may have a materially adverse effect on the Company's results of operations, many of which are beyond our control. These factors include strikes or other work stoppages, significant increases or fluctuations in interest rates, fuel taxes, fuel prices, and license and registration fees, natural disasters, forest fires, national emergencies, acts of war, acts of terrorism, technological attacks, domestic and global trade disruptions, infrastructure disruptions, civil disobedience or unrest, the outbreak of disease, or similar events. We are affected by recessionary economic cycles and downturns in customers' business cycles, particularly in market segments and industries where we have a significant concentration of customers. Economic conditions may adversely affect our customers and their ability to pay for our services.

It is not possible to predict the effects of actual or threatened armed conflicts or terrorist attacks, efforts to combat terrorism, military action against any foreign state, heightened security requirements, or other related events and the subsequent effects on the economy or on consumer confidence in the United States and Canada, or the impact, if any, on our future results of operations.

In addition, Badger's financial and/or operating performance could be materially adversely affected by the outbreak of new public health crises, epidemics, pandemics or outbreaks of new infectious diseases or viruses. As has been seen with respect to COVID-19, such public health crises can result in volatility and disruption to global supply chains, demand for oil and gas, trade and market sentiment, mobility of people, and global financial markets, which could affect access to capital, interest rates, credit ratings, credit risk, inflation, business, financial conditions and results of operations, and other factors relevant to Badger.