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 related notes of Badger Daylighting Ltd. (the "Company" or "Badger") for the year ended December 31, 2016. The audited consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). Readers should also refer to the Annual Information Form for the year ended December 31, 2016 which, along with further information relating to Badger may be found on SEDAR at www.sedar.com.

This MD&A has been prepared taking into consideration information available to March 17, 2017.

The Cautionary Statements Regarding Forward Looking Information and Statements is an integral part of this release and is included at the end.

FINANCIAL HIGHLIGHTS

($ thousands, except per share and total shares outstanding information)

	Three months ended December 31,		Twelve months ended December 31,	
	2016	**2015**	**2016**	**2015**
Revenue				
Hydrovac service revenue	101,577	93,500	368,563	367,638
Other revenue	9,319	7,564	35,639	36,982
Total revenue	110,896	101,064	404,202	404,620
Adjusted EBITDA	28,433	26,197	104,763	107,759
Legal settlement (recovery) and related costs	-	(11,909)	-	9,711
Impairment of Fieldtek oil tank cleaning assets	-	6,508	-	6,508
Profit before tax	14,204	16,294	47,131	41,243
Net profit	7,350	20,486	28,912	38,488
Profit per share – basic and diluted ($)	0.20	0.55	0.78	1.04
Cash flow from operating activities before changes in working capital	28,763	21,950	104,757	104,021
Cash flow from operating activities before changes in working capital – basic and diluted ($)	0.78	0.59	2.82	2.80
Dividends declared	3,673	3,339	14,247	13,350
Total shares outstanding (end of period)	37,100,681	37,100,681	37,100,681	37,100,681

OVERVIEW

Highlights for the three months ended December 31, 2016:

- Total revenue increased by 9.7 percent to $110.9 million in the fourth quarter of 2016 from $101.1 million in the comparable quarter in the prior year. United States revenue (in Canadian dollars) increased by 15.8 percent while Canadian revenue decreased by 1.3 percent. Exchange rates applicable to converting US revenue were comparable between the fourth quarter of 2016 and the same period in 2015.
- Total hydrovac revenue increased by 8.6 percent to $101.6 million, from $93.5 million in the comparable period from the prior year. Revenue growth from non-oil and gas producing regions, particularly in the United States continues and year over year revenue declines in oil and gas producing regions have moderated.
- Adjusted EBITDA increased by 8.5 percent to $28.4 million from $26.2 million. Adjusted EBITDA margin is consistent at 25.9 percent in the fourth quarter of 2015 and 25.6 percent in the fourth quarter of 2016.
- US Adjusted EBITDA as a percent of revenue was comparable between periods with Adjusted EBITDA margins being 28.0 percent in the fourth quarter of 2016 as compared to 28.2 percent in the comparable quarter of 2015. US Adjusted EBITDA in Canadian dollars was $21.2 million in the fourth quarter of 2016 versus $18.5 million in the same period of 2015.
- Canadian Adjusted EBITDA as a percent of revenue decreased from 21.7 percent to 20.5 percent largely due to continued competitive pressures on rates and competition in general in Western Canada. Eastern Canada has shown improvement following a weak first quarter, with fourth quarter Adjusted EBITDA margins exceeding that of the comparable quarter in 2015. Canadian Adjusted EBITDA was $7.2 million in the fourth quarter of 2016 versus $7.7 million in the fourth quarter of 2015.
- Badger continues to focus on fleet utilization, with fourth quarter 2016 Revenue per Truck (RPT) of $27,023 versus fourth quarter 2015 of $25,205. Since December 31, 2015 the Company has repositioned 237 units within its operations to support organic growth and improve overall utilization. The Company believes repositioning is largely complete between Canada and the US. Repositioning will occur in future as Badger monitors utilization at existing operating centers and opens new operating centers. The Company's hydrovac build rate continued in the range of three to six units per month during the fourth quarter of 2016.
- Cash flow from operations before changes in working capital in the quarter increased from $22.0 million in 2015 to $28.8 million in 2016 as a legal settlement payment which reduced cash flow in the fourth quarter of 2015 and there was higher Adjusted EBITDA in the fourth quarter of 2016 over the same period in 2015.

Highlights for the year-ended December 31, 2016:

- Total revenue was comparable between 2016 and 2015, with higher year over year revenue in the second though fourth quarters of 2016 making up the shortfall from the first quarter of 2016.
- Hydrovac revenue was comparable between 2016 and 2015, with hydrovac revenue in 2016 being $368.6 million as compared to $367.6 million in 2015.
- For 2016, 75 percent of Badger's hydrovac revenue was from non-oil and gas sector customers. Oil and gas customers accounted for approximately 25 percent of revenue. In 2014, approximately 51 percent of the Company's revenue was from oil and gas. The Company has maintained its market presence in its oil and gas markets and is well positioned to respond to future improvements in demand.
- 2016 revenue from non-oil and gas customers grew by 21 percent from 2015, following a 27 percent increase in these markets in 2015 from 2014. Revenue for oil and gas customers declined by 34 percent in 2016, following a 25 percent decline in 2015.
- Other revenue was consistent year over year at $35.6 million compared to $37.0 million in 2015.
- Adjusted EBITDA decreased by 2.8 percent from $107.8 million in 2015 to $104.8 million in 2016.
- Adjusted EBITDA margin for 2016 was 25.9 percent versus 26.6 percent in 2015. Adjusted EBITDA margin for the year in Canada was 21.3 percent in 2016 as compared to 22.4 percent in 2015 and in the US Adjusted EBITDA margin was 28.3 percent in 2016, versus 29.2 percent in 2015.
- Cash flow from operations before working capital adjustments were comparable between years. Cash flow from operations (after working capital adjustments) was $79.1 million in 2016 as compared to $100.3 million in 2015 as stronger revenue late in 2016 as compared to the same period in 2015 lead to an increase in receivables, which was offset by lower tax payments in 2016 as compared to 2015.
- Earnings per share was $0.78 for 2016 compared to $1.04 for 2015.
- Capital expenditures in 2016 were $23.5 million as compared to $39.0 million in 2015. In total, 55 Badger units were produced in 2016. Full year 2016 RPT was $24,815 versus $25,726 in 2015. The Company continues to focus on improving utilization of the fleet, with year over year improvement from the second through the fourth quarter of 2016 offsetting lower first quarter RPT.
- Badger had 1,024 hydrovacs at the end of 2016, reflecting the addition of 55 hydrovacs to the fleet in 2016 and the retirement of 49 units. Of the total, 356 units were operating in Canada and 668 in the United States at year-end. Badger had 364 units in Canada and 654 in the United States for a total of 1,018 units at December 31, 2015. The new units were financed from cash generated from operations.
- There was no balance outstanding on the syndicated revolving credit facility through the year.

OUTLOOK

In our 2016 Outlook we stated that we expected "2016 will be a year of running hard to stay in place". This is exactly what happened. Non-oil and gas revenue grew by 21 percent, almost offsetting a 34 percent erosion in oil and gas revenues. Badger's reduced dependence on the oil and gas sector has been a multi-year trend, with non-oil and gas revenues growing from 45 percent in 2013 to 75 percent in 2016. This past year again demonstrated the flexibility inherent in the Badger business model, enabling the Company to react, adapt and respond to local and regional economic conditions. As we look forward to 2017 Badger sees continued growth in non-oil and gas markets and stabilized demand in the oil and gas sector.

2016 Comments

1. Total revenue and hydrovac revenue were consistent year over year, despite a weak start to 2016. Revenue and Adjusted EBITDA were down 13 percent and 29 percent respectively in the first quarter of 2016. The first quarter shortfall was largely eliminated through the balance of 2016 and particularly in the fourth quarter.
2. Badger's 2016 hydrovac revenue is 70.8 percent from the US, and 29.2 percent from Canada. (2015: 67.2 percent from the US and 32.8 percent from Canada).
3. Revenue from the oil and gas sector declined 34 percent which was offset by revenue growth of 21 percent from other infrastructure end-use market segments. Fourth quarter growth in revenue of 10 percent demonstrates the potential for growth going forward assuming activity levels in the oil and gas sector stabilize.
4. The US continues to drive Badger's growth. US revenue in US dollars increased 3.2 percent, with increased revenue in the East overcoming lower revenue in the West. While the West experienced declines in revenue due to the downturn in the oil and gas industry, utilization is improving and there are opportunities to grow revenue from a lower base.
5. Western Canadian revenue was down significantly in 2016 over 2015, with the decrease coming almost entirely in the first half of the year. Low investment in the oil and gas sector, largely in Alberta is causing traditionally oil-patch focused hydrovac competitors to compete for the work in urban centers, leading to overall lower hourly rates. Eastern Canadian 2016 revenue was relatively flat for the full year compared to 2015. The management organization and the realignment of resources in that region is well underway and we are looking for improvement from Eastern Canada in 2017.
6. Badger continued to strengthen its balance sheet during 2016, exiting the year with total debt less cash of $37.8 million ($78.9 million in 2015), nothing drawn on the $125 million syndicated revolving credit facility and total debt less cash to Adjusted EBITDA of 0.36 (2015: 0.73).
7. 2016 RPT was $24,815 in 2016 versus $25,726 in 2015. Badger did not achieve its target of $30,000 in RPT in 2016, and continues to work towards achieving that target. While there was an overall decline in RPT for the year, utilization has been improving and RPT in the fourth quarter of 2016 exceeded RPT in the prior year.
8. Badger built 55 units and retired 49 during 2016, increasing the fleet size by 6 units. A significant number of units were transferred to support our growth opportunities from areas with lower utilization, and fleet management is an ongoing focus. The Company considers replacement of older units and demand for units to support growth in determining its build rate.
9. 2016 Adjusted EBITDA was 25.9 percent of revenue (2015: 26.6 percent) which is below our target of approximately 28 to 29 percent of revenue. The overall causes were a soft first quarter and the ongoing slowdown in oil and gas activity.

2017 Business Focus

1. Badger maintained stable revenue while reducing our concentration of revenue in the oil and gas sector in 2016. Badger must continue to grow in non-oil and gas sectors which have demand for Badger services in 2017. In 2016, Badger grew 21 percent in areas not related to the oil and gas industry while increasing its exposure to these markets, generating 75 percent of hydrovac revenue from non-oil and gas sectors. This business transition focus will continue in 2017.
2. Badger will focus on continued growth. Badger is adding regional operational resources to increase its focus on expansion.
3. Badger will invest in improving our business systems, processes and procedures, with a view of driving efficiencies and supporting the growth opportunities that lie ahead.
4. Badger hydrovac production remained at a maintenance level of truck builds in 2016. Overall fleet utilization is improving and Badger is seeing increased demand for growth units. Our replacement truck estimate for 2017 is about the same as for 2016. Badger believes it will retire 40 to 50 trucks in 2017. 49 trucks were retired in 2016 (44 in 2015). The Company is planning on a build rate of 70 to 100 units in 2017 (55 were built in 2016 which included the 16 units with unreliable engines that were rebuilt with new chassis).
5. For 2017, Badger is planning a build rate of between 70 to 100 units for the year.
6. Badger will continue to focus on increasing revenue per truck with a target of at least $30,000 per month.
7. Badger will increase the effectiveness of sales and business development efforts to continue to grow Badger's customer base.
8. Badger will continue to build the organization to achieve our overall objective of doubling the US business in three to five years. People are the key and Badger's ability to attract and retain key people are the means to achieve growth. Attracting, retaining and developing staff will be a focus area for Badger in 2017.
9. Badger will continue to focus on safety in everything we do and providing value added service to all customers with the motto "Best Operator and Best Truck".

2017 Outlook

2016 was a year where we needed to run hard to stay in place. While revenue for the year was comparable to the prior year, beneath the surface Badger made great strides to broaden our customer base, expand our geographical coverage, reposition our fleet and strengthen our balance sheet to be primed and ready to drive future growth. 2017 will see Badger continue where we left off from the positive results of the last quarter of 2016 with pursuit of continued growth in non-oil and gas markets and lower year over year decline in oil and gas demand. While Badger is growing in non-oil and gas, we continue to maintain our presence in our oil and gas markets and are well positioned to capitalize on improvements in oil and gas industry activity. Badger manages for the long term and believes that its business model is flexible, has significant scale advantages and excellent long term opportunities.

Results of Operations

Revenues

Fourth quarter revenues of $110.9 million for the three months ended December 31, 2016 were 9.7 percent higher than the $101.1 million generated during the comparable period in 2015. The increase is attributable to the following:

- Canadian revenue decreased by 1.3 percent to $35.2 million from $35.7 million. Both Western Canada and Eastern Canada had revenue in the fourth quarter that was slightly lower than the same period in the prior year.
- Revenue growth in the United States was strong, increasing by 16.0 percent in US dollar terms for the three months ended December 31, 2016 over the comparable quarter in 2015. United States revenue in Canadian dollars increased from $65.4 million to $75.7 million for the three months ended December 31, 2016, an increase of 15.8 percent from the same period in the prior year. The 16.0 percent increase in US revenue is the highest quarter over comparable quarter increase in revenue from the US business in the year.

Total revenue for the year was comparable at $404.2 million as compared to $404.6 million in 2015.

Badger's average revenue per truck per month during the three months ended December 31, 2016 was $27,023 versus $25,205 for the three months ended December 31, 2015. For the year, the revenue per truck in 2016 was $24,815 versus $25,726 in 2015. The reduction in revenue per truck for the year was generated in the first quarter of 2016, with the second and third quarters producing roughly similar results as the prior year, and a recovery in the fourth quarter of 2016 to a higher level than the fourth quarter of 2015. The increase was not enough to offset the low first quarter 2016 levels.

Direct Costs

Direct costs for the quarter ended December 31, 2016 were 70.6 percent of revenue ($78.3 million) as compared to direct costs of 71.3 percent of revenue ($72.0 million) for the quarter ended December 31, 2015. Both Canada and the US saw this same pattern of slightly lower percentages of revenue consumed by Direct Costs in the fourth quarter of 2016. 2016 direct costs were $284.3 million, or 70.3 percent of revenue, versus $283.1 million, or 70.0 percent of revenue, for 2015.

Gross Profit

The gross profit margin was 29.4 percent for the quarter ended December 31, 2016, up from the 28.7 percent for the quarter ended December 31, 2015. Gross profit margin for 2016 was 29.7 percent versus 30.0 percent for 2015. In 2016 Canada had a gross profit margin of 24.0 percent in the fourth quarter (22.4 percent in the fourth quarter of 2015) and 25.2 percent for the year (26.2 percent in 2015). The United States gross profit margin was 31.9 percent in the fourth quarter of 2016 (32.2 percent in the fourth quarter of 2015) and 31.9 percent for the year in 2016 (32.4 percent in 2015).

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was $11.0 million for the three months ended December 31, 2016 which was comparable to the same quarter in 2015 as the overall hydrovac fleet was little changed in total. Depreciation for all of 2016 was $43.4 million versus $42.4 million in 2015.

Finance Cost

Finance cost was $1.0 million for the quarter ended December 31, 2016 versus $2.3 million for the same quarter in 2015. The higher finance cost in the prior year was due to interest owing on income taxes related to the change in transfer prices for hydrovacs sold to the US operations. Finance costs were $5.0 million in 2016 versus $5.9 million in 2015, as a result of the same factors.

General and Administrative

General and administrative expenses increased from $2.8 million in the fourth quarter of 2015 to $4.2 million in the same quarter of 2016, largely due to a reversal of over-accrued US health liabilities in the fourth quarter of 2015 as well as some increase in payroll expenses in 2016 as the US continues to grow. As a percentage of revenue for the full year, general and administrative expenses increased from 3.4 percent in 2015 to 3.7 percent in 2016, remaining under Badger's 4.0 percent target.

Income Taxes

The effective tax rate for the year ended December 31, 2016 was 38.7 percent as compared to an effective tax rate in 2015 of 28.8 percent before the benefit of recording the recovery of a prior years transfer pricing adjustment (the actual effective tax rate was 6.7 percent including the transfer pricing adjustment). The increase in the effective tax rate is the result of fewer Badger hydrovacs transferred to the US operations and overall growth in US profit which is taxed at a higher rate relative to Canadian profits.

Deferred taxes decreased from a recovery of $18.0 million in 2015 to an expense of $0.7 million in 2016. Of the $18.0 million recovery in 2015, $16.6 million related to transfer pricing adjustments from prior years.

Net Profit

The fourth quarter of 2016 resulted in $7.3 million net profit as compared to a net profit of $20.5 million in the same period in 2015. Fourth quarter 2015 net profit included three significant non-recurring transactions which included recording the benefit of the transfer pricing adjustment, the reversal of a legal provision and recording of an impairment in Fieldtek oil tank cleaning assets. Net profit for the full year 2016 was lower at $28.9 million as compared to $38.5 million for 2015 based as a result of the same factors noted above.

Other Comprehensive Income

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

Liquidity and Dividends

Cash flow from operations was lower in 2016 primarily due to an increased need for working capital to support increased sales. As revenue slowed through 2015, receivables were drawn down producing a significant source of cash at that time.

The Company had working capital of $121.1 million at December 31, 2016 compared to $83.7 million at December 31, 2015 as reduced investment in building hydrovacs allowed cash balances to increase.

The Company pays cash dividends monthly to its shareholders. They may be reduced, increased or suspended by the Board of Directors depending on the operations of Badger and the performance of its assets. The actual cash flow available for dividends to shareholders of Badger is a function of numerous factors, including: the Company's financial performance; debt covenants and obligations; working capital requirements; maintenance and growth capital expenditure requirements for the purchase of property, plant and equipment, and the number of shares outstanding.

The Company maintains a strong balance sheet. Its debt management strategy includes retaining sufficient funds from available distributable cash to finance capital expenditures as well as working capital needs. Capital expenditures will generally be financed through existing debt facilities, proceeds received from equity financings or cash retained from operating activities. The majority of the cash provided by operating activities in 2016 was used to increase cash available for future growth, to finance capital expenditures and to pay dividends to shareholders.

The average age of Badger's fleet is approximately four and a half years. Badger determines the average age of the fleet with reference to the year the unit is produced. In the year of production the unit is considered not to age, and then ages a full year for every year thereafter. In the second and third quarter of 2016, references in this section stated that the average age at those times were "approximately four years" and "less than four years". At both times the age of the fleet should have been referenced as being approximately five years.

Badger is restricted from declaring dividends if it is in breach of the covenants under its credit facilities. As at the date of this MD&A the Company is in compliance with all debt covenants and is able to fully utilize its credit facilities as well as declare dividends. Badger does not have a credit rating.

Capital Resources

Investing

The Company invested $6.0 million in property, plant and equipment for the three months ended December 31, 2016 compared to $5.4 million for the three months ended December 31, 2015. For the year, the Company spent $23.5 million in 2016, a $15.5 million decrease over the $39.0 million spent in 2015. The decrease in property plant and equipment is largely due to the reduced production of hydrovacs in 2016. With a maintenance build rate, the cost to build a hydrovac unit was comparable to 2015.

During the year ended December 31, 2016, Badger added 55 units to the fleet (64 in 2015), of which 49 have been reflected as replacements of retired units (44 in 2015).

Financing

Syndicated revolving credit facility

In 2014, the Corporation established a $125 million syndicated revolving credit facility (the "credit facility"). The purpose of the credit facility is to finance the Corporation's capital expenditure program and for general corporate purposes. The credit facility bears interest, at the Corporation's option, at either the bank's prime rate plus a tiered set of basis points or bankers' acceptance rate also with a tiered structure. A stand-by fee is also required on the unused portion of the credit facility on a tiered basis. The prime rate tiers range between zero and 125 basis points. The bankers' acceptance tier ranges from 125 to 250 basis points. The stand-by fee tiers range between 25 and 50 basis points. All of the tiers are based on the Company's Funded Debt to "Bank EBITDA" ratio. Bank EBITDA is defined as earnings before interest, taxes, depreciation and amortization. The stand-by fee is expensed as incurred.

The credit facility expires on July 22, 2018.

The credit facility is collateralized by a general security interest over the Corporation's assets, property and undertaking, present and future.

As at December 31, 2016, the Corporation has issued letters of credit of approximately $3.7 million (December 31, 2015 - $3.4 million). The outstanding letters of credit support the U.S. insurance program and certain performance bonds and reduce the amount available under the syndicated credit facility.

At December 31, 2016, the Corporation had available $121.3 million (December 31, 2015 - $121.6 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Senior secured notes

On January 24, 2014 Badger closed a private placement of senior secured notes. The notes, which rank pari passu with the extendable revolving credit facility, have a principal amount of US $75.0 million and an interest rate of 4.83 percent per annum and mature on January 24, 2022. The Canadian dollar equivalent on January 24, 2014 was $82.9 million. Amortizing principal repayments of US $25.0 million are due under the notes on January 24, 2020, January 24, 2021 and January 24, 2022. Interest is paid semi-annually in arrears.

The senior secured notes are collateralized by a general security interest over the Corporation's assets, property and undertaking, present and future.

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

Under the terms of the credit facility and the senior secured notes, the Corporation must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2016, and as at December 31, 2016, the Corporation was in compliance with all of these covenants.

SHARE CAPITAL

Shares outstanding at December 31, 2016 and March 17, 2017 were 37,100,681.

SELECTED QUARTERLY FINANCIAL INFORMATION

All amounts are $000's except Per Share amounts are $'s	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	110,896	113,167	91,981	88,157	101,064	111,431	90,435	101,689
Net profit (loss)	7,349	11,944	5,951	3,668	20,486	17,090	(10,533)	11,443
Net profit (loss) per share – basic and diluted	0.20	0.32	0.16	0.10	0.55	0.46	(0.28)	0.31

CHANGES IN ACCOUNTING POLICIES

The Corporation adopted amendments to IFRS 7, IAS 32, IAS 36, and IFRIC 21 on January 1, 2014. There was no material impact to the Corporation's interim condensed consolidated financial statements as a result of the adoption of those standards.

ACCOUNTING STANDARDS PENDING ADOPTION

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation:

i) IFRS 9, 'Financial Instruments' was issued as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial instruments that must be applied starting January 1, 2018, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Corporation will assess the impact of this standard on the consolidated financial statements.

ii) IFRS 15, 'Revenue from Contracts with Customers' replaces IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers and SIC-31, Revenue – Barter Transactions Involving Advertising Services and is effective for annual periods beginning on or after January 1, 2017. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. The new standard provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions.

a. Identify the contract(s) with the customer;
b. Identify the performance obligation(s) in the contract;
c. Determine the transaction price;
d. Allocate the transaction price to each performance obligation in the contract;
e. Recognize revenue when (or as) the entity satisfies a performance obligation.

The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The Corporation has not yet selected a transition method nor determined the effect of the standard on the consolidated financial reporting.

iii) IFRS 16, 'Leases' will supersede the current IAS 17, 'Leases' standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Corporation is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and have the option to either:

- apply IFRS 16 with full retrospective effect; or
- recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

As a practical matter, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. The extent of the impact of adoption of the standard has not yet been determined.

CRITICAL ACCOUNTING ESTIMATES

Management is responsible for applying judgement in preparing accounting estimates. Certain estimates and related disclosure included in the financial statements are particularly sensitive because of their significance to the financial statements and the possibility that future events affecting them may differ significantly from management's current judgements. An accounting estimate is considered critical only if it requires the Company to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and if different estimates the Company could have used would have a material impact on Badger's financial condition, changes in financial condition or results of operations.

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

Depreciation of hydrovac units

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

Tax pools and their recoverability

Badger has estimated its tax pools for the income tax provision. The actual tax pools the Company may be able to use could be materially different in the future. Badger has recognized the benefit of a transfer pricing adjustment on the sale of hydrovac vehicles from Canada to the United States relating to the years 2009 to 2013 based on an estimate of the fair values of these vehicles. The tax pools that result from the transfer pricing adjustment may be materially different and depend on final resolution from both Canada and the United States taxing authorities.

Intangible assets

Intangible assets consist of service rights acquired from Badger's operating partners, customer relationships, trade name and non-compete agreements. 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. Impairment exists when the carrying amount of the intangible asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation 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 projections 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. When an impairment loss reverses, the carrying amount of the intangible asset is increased to the revised estimate of the recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized.

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 long-lived assets

The carrying value of long-lived assets, which include property, plant and equipment and intangible assets, is assessed for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Collectability of trade and other receivables

The Company estimates the collectability of its trade and other receivables. The Company continually reviews the balances and makes an allowance when a receivable is deemed uncollectable. The actual collectability of trade and other receivables could differ materially from the estimate.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values

The Company's financial instruments recognized on the consolidated statements of financial position consist of cash and cash equivalents, trade and other receivables, trade and other payables, deferred unit plan liability, dividends payable and long-term debt. The fair values of these recognized financial instruments, excluding long-term debt, approximate their carrying value due to their short-term maturity. The carrying value of the long-term debt approximates fair value because the long-term facilities have a floating interest rate.

Credit risk

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

Liquidity risk

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

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

Market risk

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

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on a portion of its long-term debt whose rate is floating. Interest is calculated at prime. The prime interest rate is subject to change. No amount was drawn on the portion of long term debt that is subject to a floating interest rate. The Company does not use interest rate hedges or fixed interest rate contracts to manage its exposure to interest rate fluctuations but has chosen to issue

USD 75.0 million in fixed rate senior secured notes which fixes interest exposure on a portion of the long term debt.

Foreign exchange risk

The Company is exposed to foreign currency fluctuations as revenue and expenses derived from United States operations are denominated in United States dollars. The United States subsidiaries are subject to translation gains and losses on consolidation. The Company's Canadian operations purchase certain products in United States dollars. Foreign exchange gains and losses are included in net profit while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the Company's United States operations are included in OCI. The Company also holds United States dollar denominated debt which is used to manage the exposure to foreign exchange gains and losses arising from the translation of its United States functional currency operations included in OCI.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

Badger's President and CEO and its VP Finance and CFO have designed, or caused to be designed under their direct supervision, Badger's disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, adopted by the Canadian Securities Administrators) to provide reasonable assurance that (i) material information relating to Badger, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and (ii) material information required to be disclosed in the annual filings 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 at December 31, 2016 and have concluded the disclosure controls and procedures are fully effective.

Internal Control over Financial Reporting

Badger's President and CEO and its VP Finance and CFO have also designed, or caused to be designed under their direct supervision, Badger's internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Further, using the criteria established in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's internal control over financial reporting at December 31, 2016 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 2016.

Inherent Limitations

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

BUSINESS RISKS
[Reference is also made to Badger's 2016 Annual Information Form]

Reliance on certain end use and geographic markets

Badger's reliance on the oil and natural gas sector has been decreasing over time, but remains at approximately 25 percent of the Company's revenues in 2016. The petroleum service industry, in which Badger participates, relies heavily on the volume of capital expenditures made by oil and natural gas explorers and producers. These spending decisions are based on several factors including, but not limited to: hydrocarbon prices, production levels of current reserves, fiscal regimes in operating areas, technology-driven exploration and extraction methodologies, and access to capital, all of which can vary greatly. To minimize the impact of the oil and natural gas industry's cycles, the Company also focuses on generating revenue from the utility and general contracting market segments.

Competition

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

United States operations

Badger also faces risks associated with doing business in the United States. The Company has made a significant investment in the United States to develop the hydrovac market. The growth rate of the United States market is very hard to predict. The United States, and each of the 50 states, have their own unique set of laws, policies and regulations that have a real or apprehended effect on business operating conditions, approval or delay of potential new projects that could require Badger's services, current rates of capital investment and the general level of confidence about future economic conditions among businesses and organizations.

Safety

Badger is exposed to liabilities that are unique to the services that it provides. Such liabilities may relate to an accident or incident involving one of Badger's hydrovacs or damage to equipment or property caused by one of the hydrovacs, and could involve significant potential claims or injuries to employees or third parties. The amount of Badger's insurance coverage may not be adequate to cover potential claims or liabilities and Badger may be forced to bear substantial costs as a result of one or more accidents. Substantial claims resulting from an accident in excess of its related insurance coverage would harm Badger's financial condition and operating results. Moreover, any accident or incident involving Badger, even if Badger is fully insured or not held liable, could damage Badger's reputation among customers and the public, thereby making it more difficult for Badger to compete effectively, and could significantly affect the future cost and availability of insurance. Because Badger does not purchase replacement hydrovacs, but rather constructs them, the Company self-insures against the physical damage it could incur on the hydrovac units. Franchise owners are required to hold certain levels of insurance on the hydrovacs they lease from Badger. These decisions will be re-evaluated periodically as circumstances change.

Safety is one of the Company's on-going concerns. Badger has implemented programs to ensure its operations meet or exceed current hydrovac safety standards. The Company also employs safety advisors in each region who are responsible for maintaining and developing the Company's safety policies. These regional safety advisors monitor the Company's operations to ensure they are operating in compliance with such policies.

Environmental risk

Badger is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that Badger could be liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed at other locations. The failure to comply with such environmental laws could damage Badger's reputation and have a negative effect on Badger's operating and financial results.

Depreciation of hydrovac units

The Company depreciates the hydrovac units over 10 years, a policy that is based on its current knowledge and operating experience. There is a certain amount of business risk that newer technology or some other unforeseen circumstance could lower this life expectancy.

Dependence on key personnel

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

Availability of labour and equipment

While Badger has historically been able to source the labour and equipment required to run its business, there can be no assurances it will be able to do so in the future.

Reliance on key suppliers

Badger has established relationships with key suppliers. There can be no assurance that current sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, Badger's ability to manufacture its hydrovac units may be impaired.

Fluctuations in weather and seasonality

Badger's operating results have been, and are expected to remain, subject to quarterly and other fluctuations due to a variety of factors including changes in weather conditions and seasonality. For example, in Western Canada Badger's results may be negatively affected if there is an extended spring break-up period since oil and natural gas industry sites may be inaccessible during such periods. The Company may then experience a slow period during spring thaw. In the Eastern United States, Badger has experienced reduced work in unusually cold and snowy winters.

In the Western United States, Badger has from time-to-time been restricted by the imposition of government regulations from conducting its work in environmentally sensitive areas during the winter mating seasons of certain mammals 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.

Fluctuations in the economy and political landscape

Operations could be adversely affected by a general economic downturn, changes in the political landscape or limitations on spending. At the end of 2016, seventy-five percent of Badger's revenue source from a wide dispersion of geographic locations and customer markets. To the extent there are regional or more broadly based business cycles Badger's results can be negatively affected

Compliance with government regulations

While Badger believes it is in compliance with all applicable government standards and regulations, there can be no assurance that all of Badger's business are, or will be, able to continue to comply with all applicable standards and regulations.

Litigation

Legal proceedings may arise from time to time in the course of Badger's business. All industries, including the hydrovac industry, are subject to legal claims, with and without merit. Such legal claims may be brought against Badger or one or more of its subsidiaries in the future from time to time. Defense and settlement costs of legal claims can be substantial, even with respect to claims without merit. Due to the inherent uncertainty of the litigation process, such process could divert management time and effort and the resolution of any particular legal proceeding to which Badger may become subject could have a material effect on Badger's financial position and results of operations.

Income tax matters

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

Cyber security and terrorism

Badger may be threatened by problems such as cyber-attacks, computer viruses, or terrorism that may disrupt operations and harm operating results. Badger's business requires the continued operation of information technology systems and network infrastructure. Despite the implementation of security measures, technology systems are vulnerable to disability or failures due to hacking, viruses, acts of war or terrorism, and other causes. If Badger's information technology systems were to fail and Badger was unable to recover in a timely way, Badger might be unable to fulfill critical business functions, which could have a material adverse effect on its business, financial condition, and results of operations.

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 and results of operations.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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

In particular, forward looking information and statements include discussion reflecting the Company's belief that:

- Overall activity and the economy remains relatively constant in areas and market segments not affected by activities in the oil and natural gas sector;
- Areas associated with the oil and natural gas industry see the decline in investment by that industry and the decline in overall activity levels moderate;
- Badger can manage costs in areas and sectors affected by the low energy price environment and reallocate assets as required to areas which have strong economies and which have benefited from weak oil prices;
- Badger can grow in areas unaffected by the low oil price environment;
- Badger in 2017 can further develop the organization to position itself to be able to handle the planned future growth;
- The business development efforts will provide Badger with the additional new customers necessary to grow the business in 2017 and the future;

- Badger's fleet is available to perform work in 2017 and truck replacements are not significantly more than planned;
- Badger achieves Adjusted EBITDA levels of approximately 28 to 29 percent of revenue.

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

- Badger has the ability to achieve its revenue, net profit and cash flow forecasts for 2017;
- There will be a long-term demand for hydrovac services from oil refineries, petro-chemical plants, power plants and other large industrial facilities 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;
- The overall market for its services will not be adversely affected by weather, natural disasters, global events, legislation changes, technological advances, economic disruption or other factors beyond Badgers control;
- Badger will execute its growth strategy;
- Badger will obtain all labour, parts and supplies necessary to complete the planned hydrovac build.

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

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

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 corporations or entities. These financial measures are identified and defined below:

"Cash available for growth and dividends" is used by management to supplement cash flow as a measure of operating performance and leverage. The objective of this measure is to calculate the amount available for growth and/or dividends to shareholders. It is defined as funds generated from operations less required debt repayments and maintenance capital expenditures, plus any proceeds received on the disposal of assets.

"Adjusted EBITDA" is earnings before interest, taxes, depreciation and amortization, share-based compensation, gains and losses on sale of property, plant and equipment, gains and losses on foreign exchange, and a non-recurring legal provision. 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 our operating results over time. Adjusted EBITDA provides an indication of the results generated by the Company's principal business activities prior to how these activities are financed, the results are taxed in various jurisdictions, and assets are amortized. In addition, Adjusted EBITDA excludes gains and losses on sale of property, plant and equipment as these gains and losses are considered incidental and secondary to the principal business activities, it excludes gains and losses on foreign exchange as such gains and losses can vary significantly based on factors beyond our control, it excludes share-based compensation as these expenses can vary significantly with changes in the price of our common shares and it excludes the legal settlement and related costs recorded in 2015 as this is non-recurring and outside our normal course of business.

Adjusted EBITDA is calculated as follows:

	For the year ended,	
	December 31, 2016	**December 31, 2015**
Net profit	28,912	38,488
Add:		
Depreciation of property, plant and equipment	43,425	42,366
Amortization of intangible assets	-	1,276
Impairment related to oil tank cleaning assets	-	6,508
Share-based compensation expense	6,904	1,710
Loss (gain) on sale of property, plant and equipment	2,410	(159)
Finance cost	4,952	5,915
Legal settlement	-	9,711
Foreign exchange (gain) loss	(59)	(811)
Tax expense	18,219	2,755
Adjusted EBITDA	**104,763**	**107,759**

Adjusted EBITDA is more directly calculated as follows:

	For the year ended, December 31, 2016	December 31, 2015
Revenue	404,202	404,620
Less:		
Direct costs	284,297	283,105
General and administrative expense	15,142	13,756
Adjusted EBITDA	**104,763**	**107,759**

"Revenue per truck per month" (RPT) is a measure of hydrovac fleet utilization. It is a measure of hydrovac revenue only. The RPT is calculated by combining Canadian and US dollar hydrovac revenue without converting for exchange differences, dividing the hydrovac revenue for the period by the simple average of hydrovacs in service throughout the period, and further dividing by the number of months in the period.

Revenue per truck (/mo)	**2016**				**2015**			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Total	27,023	28,062	23,038	21,105	25,197	28,106	23,317	26,258

FLEET SUMMARY

	2016				**2015**			
Number of hydrovacs	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Canada	356	353	358	361	364	375	393	393
US	668	675	661	651	654	645	626	618
Total	1,024	1,028	1,019	1,012	1,018	1,020	1,019	1,011

MARKETING AND FRANCHISE AGREEMENTS

Number of Marketing and Franchise Agreements	**2016**				**2015**			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Canada	12	12	12	13	13	14	14	15
US	4	5	5	5	5	5	7	8
Total	16	17	17	18	18	19	21	23

FOREIGN EXCHANGE RATES

Foreign exchange rates are an important factor that affects the results of Badger's operations.

	2016				**2015**			
1 USD:CAD	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Quarterly average	1.3340	1.3051	1.2885	1.3748	1.3354	1.3085	1.2300	1.2409
Period end	1.3426	1.3116	1.3009	1.2970	1.3847	1.3391	1.2475	1.2678