



BADGER DAYLIGHTING LTD.

Management's Discussion and Analysis

FOR THE YEAR ENDED DECEMBER 31, 2017

Dated: March 27, 2018

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and notes thereto of Badger Daylighting Ltd. (the "Company" or "Badger") as at and for the years ended December 31, 2017 and 2016. Readers should also refer to all previous public filings, including the Company's Annual Information Form for the year ended December 31, 2017, which may be found on SEDAR at www.sedar.com.

The audited consolidated financial statements of Badger were prepared by and are the responsibility of Badger's management. Badger's audited consolidated financial statements as at and for the years ended December 31, 2017 and 2016 were prepared in accordance with International Financial Reporting Standards (IFRS).

This MD&A is dated and has been prepared taking into consideration information available to March 27, 2018. All references to "dollars" and "\$" are to the currency of Canada unless otherwise indicated. This MD&A includes forward-looking statements and assumptions. See "Cautionary Statements Regarding Forward-Looking Information and Statements" for additional details.

Overview of Badger

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

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

Financial Highlights

(\$ thousands, except revenue per truck per month, per share and share information)	Year ended December 31,	
	2017	2016
Revenue:		
Hydrovac service revenue	456,586	368,563
Other service revenue	41,893	35,189
Truck placement revenue	757	450
Total revenue	499,236	404,202
Revenue per truck per month ("RPT") ⁽¹⁾ - annual	30,075	24,815
Adjusted EBITDA ⁽¹⁾	125,381	104,763
Adjusted EBITDA margin ⁽¹⁾	25.1%	25.9%
Profit before tax	71,625	47,131
Net profit	65,852	28,912
Net profit per share, basic and diluted	\$1.77	\$0.78
Cash flow from operating activities before working capital adjustments	123,683	104,757
Cash flow from operating activities before working capital adjustments per share, basic and diluted	\$3.33	\$2.82
Dividends paid	15,433	14,247
Weighted average common shares outstanding	37,100,681	37,100,681

⁽¹⁾ See "Non-IFRS Financial Measures" and "Key Financial Metrics" for additional detail on the definition and calculation of Adjusted EBITDA, Adjusted EBITDA margin, and revenue per truck per month.

Comparable IFRS Financial Information ⁽¹⁾

(\$ thousands, except per share information)	Year ended December 31,	
	2017	2016
Cash flow from operating activities	87,400	79,075
Cash flow from operating activities per share, basic and diluted	\$2.36	\$2.13

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

Overview

2017 Highlights

- Badger generated Adjusted EBITDA of \$125.4 million for the year ended 2017 compared to \$104.8 million in the prior year. Improvements in Adjusted EBITDA were driven by revenue growth, higher hydrovac utilization due to a combination of an increase in operating hours and modest improvements in pricing, and expense management.
 - Revenue for the year ended 2017 of \$499.2 million was \$95.0 million or 24% higher compared to \$404.2 million in the prior year.
 - In Canada, revenue was \$151.1 million for the year ended 2017, 11% higher than the prior year with revenue of \$135.8 million. In the U.S., revenue for the year ended 2017 was US\$268.1 million, 32% higher than the prior year comparative with revenue of US\$202.4 million.
 - Revenue growth in 2017 for both the Canadian and United States (“U.S.”) markets was due to higher activity across Badger’s broad range of geographic and end use markets. Specifically, Badger saw improvements in infrastructure and construction related markets due to increased overall activity levels, continued growth in the adoption of hydrovac as the preferred method of safe and non-destructive excavation, and improvements in oil and gas markets.
 - Higher revenues for the year ended 2017 compared to the prior year can also be attributed to Badger’s investment in its business development function, a key differentiator for Badger compared to its competitors. Badger continues to realize revenue growth as a result of increased market penetration, in addition to the use of hydrovac as the preferred method of non-destructive excavation in both new and existing markets, as the benefits and potential uses for hydrovac continue to be understood by Badger’s existing and new customer base.
 - Average rates for hydrovac and related services for 2017 compared to the prior year were consistent to modestly higher across both the Canadian and U.S. markets.
- Revenue per truck per month (“RPT”) for the year ended 2017 was \$30,075 compared to \$24,815 in the prior year. The year-over-year improvement in RPT was driven by a combination of revenue growth (sales volume and price improvements) and improved fleet utilization. The primary driver of the improvement in RPT was due to increased demand for hydrovac services throughout Badger’s broad branch network. Badger’s extensive and broad branch network uniquely positions Badger to optimize its fleet by transferring units on a permanent or temporary basis to locations with stronger activity levels.
- Adjusted EBITDA margin for the year ended 2017 was 25.1% compared to 25.9% in the prior year.
 - Adjusted EBITDA margins in 2017 were primarily impacted by higher general and administrative expenses. Direct costs as a percentage of revenue were consistent with the prior year.
- During 2017, Badger provided disaster assistance and emergency response services related to hurricanes Harvey and Irma, and the wild fires and mudslides in California. Although these activities did not have a material impact on Badger’s consolidated financial results, Badger’s ability to quickly respond to customer emergency response requirements is a testament to Badger’s extensive branch network, providing Badger with the ability to temporarily reallocate hydrovacs into disaster areas to assist our customers with their clean-up and reconstruction efforts.
- Throughout 2017, Badger placed 85 net additional hydrovacs into service, consisting of 157 new and 72 retired hydrovacs. As at December 31, 2017, Badger had 1,109 hydrovacs in operation compared to 1,024 in the prior year. See “Outlook” and “Capital Resources” for additional details.
- Net profit for the year ended December 31, 2017 was \$65.9 million or \$1.77 per share compared to \$28.9 million or \$0.78 per share in the prior year. Net profit was impacted by higher EBITDA, as discussed previously,

and reduced income tax expense due to the changes in U.S. federal income tax legislation which were enacted on December 22, 2017. See “Taxes” for additional details on the impact of the revised U.S. federal income tax legislation.

- Badger continues to maintain a strong balance sheet and currently has no amounts drawn on its bank facility, providing Badger with excellent flexibility to facilitate ongoing growth in the business. Badger’s total debt less cash and cash equivalents was \$48.0 million at December 31, 2017, with a corresponding debt less cash and cash equivalents to Compliance EBITDA ratio of 0.4X.
- The Board of Directors of Badger has approved an increase of the dividend to \$0.54 per common share on an annualized basis from \$0.456 per common share, an increase of 18%, effective with the April 2018 dividend payable in May 2018.
- The Board of Directors of Badger has approved Badger to pursue the implementation of a Normal Course Issuer Bid (“NCIB”) of up to a maximum of 2,000,000 common shares, pursuant to which Badger would have an option to repurchase its common shares for cancellation. The implementation of the NCIB is subject to normal course regulatory approvals. See “Normal Course Issuer Bid” for additional details.

Results of Operations

Revenues

Revenues of \$499.2 million for the year ended 2017 were 24% higher than the \$404.2 million generated during the prior year. Throughout 2017, Badger realized improved demand for hydrovac and related services across the majority of its operating regions and end use markets. More specifically, the increase in revenue in 2017 over the prior year is attributable to the following:

- Revenue from the U.S. operations increased by 32% to US\$268.1 million for the year ended 2017 compared to US\$202.4 million in 2016. Revenue growth throughout 2017 was achieved by continued growth in Badger’s customer base, expanding the business into new markets, the benefit of a recovery in oil and gas producing regions, and consistent to modestly higher average hydrovac rates. U.S. denominated revenue converted to Canadian dollars was \$348.2 million in 2017 compared to \$268.4 million in the prior year, a 30% increase. The average foreign currency rate for 2017 was CDN\$1.30 to US\$1.00 compared to CDN\$1.33 to US\$1.00 in the prior year.
- Canadian revenue increased by 11% to \$151.1 million in 2017 compared to \$135.8 million in the prior year. The increase in revenue was due to continued improvements in customer demand for hydrovac services, primarily in Western Canada. Badger continues to see improvements in demand in oil and gas producing regions, in addition to general improvements in demand amongst non-oil and gas customers in Western Canada. Revenue in Badger’s Eastern Canadian operations for the year ended 2017 was modestly higher than the prior year.
- Eastern Canada continues to be a competitive market, but recent changes to the regulatory environment implemented by the Ontario Ministry of Transportation related to the licensing of hydrovacs has helped to support modest improvements in pricing. Hydrovacs in Ontario were required to be licensed for on-road use as of July 1, 2017. Accordingly, hydrovacs are now subject to commercial vehicle regulations which includes weight restrictions. Competitor hydrovac companies operating large, heavy units will be required to transport smaller loads in order to comply with these weight restrictions. Smaller loads may result in higher operating costs which may incentivize competitors to increase prices in order to maintain profitability and sales margins.

- Other services revenue for 2017 was \$41.9 million compared to \$35.2 million in the prior year. The increase in other revenue for the year was due primarily to higher general activity levels, particularly in the U.S. operations.
- Truck placement revenue of \$0.8 million in 2017 represents fees paid by franchisees for new hydrovacs received and put into service by the franchisees during the year. Truck placement revenue will vary on a year-over-year basis due to the variability in timing of when a franchise may require a new hydrovac.

Badger's RPT for 2017 was \$30,075 compared to \$24,815 in the prior year comparative. The improvement in RPT for 2017 was due primarily to a combination of higher overall revenues and the ongoing optimization of Badger's fleet through geographic relocation. Badger continues to assess its fleet on an ongoing basis in order to optimize operating performance and to respond to regional customer needs. Badger is uniquely positioned to be able to respond to customer service requirements due to its large hydrovac fleet and extensive branch network.

RPT is a mixed currency measure, for additional information, refer to the definition of this measure under the "Key Financial Metrics" section.

Direct Costs

Direct costs for the year ended 2017 were \$352.6 million compared to direct costs of \$284.3 million in 2016. On a dollar basis, the increase in direct costs was directly attributable to higher revenues and increased customer demand. As a percentage of revenue, direct costs for the year ended 2017 were consistent with the prior year at 71% in 2017 compared to 70% in 2016. Direct costs in 2017 were impacted by modestly higher compensation expense, fuel, insurance, and repairs and maintenance related expenses, the impact of which was largely offset by the benefit of improved asset utilization. Compensation related expense was modestly higher than the prior year due to general wage inflation, in addition to incremental headcount associated with Badger's business development function. Badger continues to manage costs through active expense management and fleet optimization, the impact of which has offset higher costs due to general inflation, in addition to costs attributable to the growth in Badger's overall business such as recruitment, business development, fleet, and health and safety activities.

Included in direct costs is bad debt expense. Bad debt expense for 2017 was \$1.9 million compared to \$1.8 million in 2016. As a percentage of revenue, bad debt expense for 2017 is modestly lower than the prior year period due in part to Badger's ongoing investment in its administrative functions which have had a positive impact on the collection performance of Badger's receivable portfolio.

Gross Profit

Gross profit for the year ended 2017 was \$146.6 million compared to \$119.9 million in the prior year. Gross profit margin was 29.4% for the year ended 2017, compared to 29.7% for 2016.

Gross profit margin for the Canadian operations was 25.2% in 2017 compared to 25.2% in 2016, with gross profit margin in the U.S. operations of 31.2% in 2017 compared to 31.9% in 2016. Gross profit margins in Canada and the U.S. were driven primarily by a combination of changes in end use market and regional sales mix, and modestly higher direct costs as a percentage of revenue. Average hydrovac rates for 2017 compared to the prior year were consistent to modestly higher across both the Canadian and U.S. markets. Gross profit margin in both Canada and the U.S. benefitted from the positive trends in RPT. A higher RPT may result in higher average margins as less direct fixed costs as a percentage of revenue are required to support the incremental revenue in the business.

General and Administrative Expenses

General and administrative expenses for 2017 were \$21.2 million compared to \$15.1 million in the prior year. As a percentage of revenue, general and administrative expenses were 4.2% in 2017 compared to 3.7% in the prior year. The increase in general and administrative expenses compared to the prior year is due primarily to higher short-term incentive plan costs, additional salary and benefits due to higher headcount, and professional costs associated with general corporate activities and ongoing strategic initiatives. In addition, the prior year comparative expenses included a recovery of U.S. health benefit premiums. The increase in short-term incentive plan costs in the current year is due to Badger's strong year-to-date financial performance combined with additional headcount. The increase in headcount is the result of Badger's ongoing investment in additional operations management and administrative resources to facilitate Badger's current and future growth objectives. Higher professional fees relate to consulting costs to support several key strategic initiatives, including evaluating Badger's technology and business support applications, and enhanced corporate and investor communications. Badger's target for general and administrative expenses on a long-term annualized basis remains at 4.0% of revenue.

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was \$45.5 million for 2017, compared to \$43.4 million in 2016. The increase in depreciation expense is primarily the result of Badger adding 85 net incremental hydrovacs into service throughout 2017.

Share-based Compensation Expense

Share-based compensation expense was \$1.7 million in 2017 compared to an expense of \$6.9 million in 2016. Stock-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. The reduction in share-based compensation in 2017 is due primarily to changes in Badger's share price.

Gain or Loss on Sale of Property, Plant and Equipment

Loss on the sale of property, plant and equipment for 2017 was \$0.3 million as the residual value of units retired and disposed of was modestly in excess of the proceeds on disposal. In 2016, there was a \$2.4 million loss on sale of property, plant and equipment resulting from disposing of 16 vehicles with a particular engine that proved to be unreliable. Badger does not sell retired or operational hydrovacs, but does dispose of bare chassis from retired units.

Finance Cost

Finance cost was \$5.5 million for the year ended 2017 compared to \$5.0 million in 2016. The increase was due to costs associated with the extension of the syndicated revolving credit facility on August 11, 2017, as previously disclosed in Badger's 2017 second quarter earnings release.

There is currently no balance drawn on the syndicated revolving credit facility. Badger's only material debt obligation, excluding normal course operating leases and outstanding letters of credit, are the US\$75.0 million senior secured notes which are fully described in Badger's 2017 audited consolidated financial statements.

Income Tax

Total income tax expense for the year ended 2017 was \$5.8 million compared to \$18.2 million in the prior year. Included in total income tax expense is current income taxes of \$20.3 million and a deferred income tax recovery of \$14.5 million for 2017, compared to current taxes of \$17.5 million and deferred income taxes of \$0.7 million in the prior year. Current income tax expense for 2017 was higher than the prior year due to higher taxable earnings as a result of the increase in Adjusted EBITDA in both the Canadian and U.S. operations, the impact of higher shipments of hydrovacs from Canada to the U.S., offset in part, by the benefit of increased bonus depreciation as a result of changes to U.S. federal income tax legislation for assets brought into service during the fourth quarter of 2017, the impact of which is fully described below.

Changes to U.S. federal corporate income tax rates as a result of revised U.S. tax legislation adopted on December 22, 2017, did not have an impact on Badger's 2017 current income tax expense, as the reduction in U.S. federal tax rate does not take effect until January 1, 2018. Badger's 2017 current tax expense does include a \$3.0 million benefit, recognized in the fourth quarter of 2017, due to the bonus depreciation provisions, which were updated with the U.S. federal income tax changes. Hydrovacs and other eligible capital, put into service after September 27, 2017, were eligible to be deducted at a rate of 100%.

See "U.S. Income Tax Changes" for additional details on the impact to Badger of changes to U.S. federal income tax legislation.

Deferred income taxes for 2017 were a recovery of \$14.5 million compared to an expense of \$0.7 million in the prior year. The 2017 deferred income tax recovery is largely a result of changes to U.S. federal income tax legislation noted above. Badger's deferred income tax liability, which was previously calculated using a U.S. federal corporate income tax rate of 35%, was required to be revalued at the revised U.S. federal corporate income tax rate of 21%. Utilizing the revised rate in the determination of Badger's deferred income tax liability resulted in a reduction of Badger's deferred income tax liability of \$17.2 million, with a corresponding recovery of deferred income tax included in net earnings.

U.S. Income Tax Changes

Changes to U.S. federal income tax legislation are the result of the passing of the Tax Cuts and Jobs Act of 2017 ("Revised Tax Legislation"), enacted on December 22, 2017. The Revised Tax Legislation includes three relevant changes to tax legislation in the United States:

- A reduction in the U.S. federal corporate income tax rate;
- An increase and extension of the bonus depreciation provisions; and
- The introduction of a Base Erosion Anti-Abuse Tax ("BEAT"), a new alternative minimum tax mechanism.

U.S. Federal Tax Rate Reduction

The U.S. federal corporate income tax rate was reduced from 35% to 21% for fiscal years starting as of January 1, 2018 and for all subsequent years. As detailed above, because the reduction in the federal income tax rate is not effective until January 1, 2018, there is no impact on Badger's 2017 current income tax expense. Beginning in 2018, Badger's current income tax expense will benefit from the reduction in the U.S. federal corporate income tax rate. As detailed earlier, the reduction in the U.S. federal corporate income tax rate resulted in a reduction of Badger's deferred income tax liability of \$17.2 million, which was recognized by Badger in the fourth quarter of 2017.

Increase and Extension of Bonus Depreciation Provisions

Under previous U.S. tax legislation, the accelerated or bonus depreciation provisions on certain depreciable property were set to reduce and ultimately expire in 2018 and 2019. The Revised Tax Legislation now provides for 100% tax depreciation for assets acquired and put into service after September 27, 2017 until December 31, 2022, with a gradual reduction in the bonus depreciation rates for assets acquired and placed into service thereafter, but prior to January 1, 2027.

A summary of the changes to bonus depreciation rates is as follows:

Fiscal Year	Bonus Depreciation – Revised Tax Legislation	Bonus Depreciation – Previous Tax Legislation
2017 ⁽¹⁾	100%	50%
2018	100%	40%
2019	100%	30%
2020-2022	100%	standard rates
2023	80%	standard rates
2024	60%	standard rates
2025	40%	standard rates
2026	20%	standard rates
2027	standard rates	standard rates

⁽¹⁾ Bonus depreciation rates under the Revised Tax Legislation are effective after September 27, 2017.

Bonus depreciation is deductible at a federal level; the deductibility at a state or local tax level is on a state-by-state basis.

As previously noted, Badger recognized a benefit to its current income tax expense of \$3.0 million in the fourth quarter of 2017, as a result of the updated bonus depreciation provisions being effective for assets put into service after September 27, 2017. Badger's 2018 and future years current income tax will positively benefit from the revised bonus depreciation provisions, as a significant portion of Badger's hydrovac build (replacement and incremental units) are anticipated to be placed into service in Badger's U.S. operations.

Base Erosion Anti-Abuse Tax

Badger does not anticipate the BEAT will be applicable in the near term.

The BEAT is applicable when a company's U.S. three-year average annual gross receipts are US\$500 million or greater and has made related party deductible payments totaling 3% or more of total deductions for the taxation year. Badger does not currently meet the revenue threshold, but future revenue growth could subject Badger to the BEAT in future years.

The minimum BEAT is the excess of 5% (10% for taxation years 2019 through 2025; 12.5% for taxation years thereafter) of a corporation's modified taxable income over its regular tax liability for the year, reduced by certain credits. The BEAT, if applicable in future taxation years, would increase the effective tax rate of U.S. operations. The application of the BEAT or Badger's future tax planning related to the BEAT could have a material impact on Badger's U.S. tax depreciation schedules and future current income tax expense.

Overall Implications of U.S. Tax Changes

Badger anticipates that similarly to 2017, it will continue to send a high proportion of its newly manufactured hydrovac units to its U.S. operations, increasing the total capital eligible for capital cost deductions in the U.S., which when combined with the updated bonus depreciation rates and the reduced U.S. federal corporate tax rate, will reduce near-term U.S. current income taxes but will result in a higher deferred income tax liability.

Due to the nature, complexity and assumptions required when assessing changes to income tax legislation, including the impact of future regulations and interpretations to be issued by the Internal Revenue Service to implement the Revised Tax Legislation, the exact amount and timing of the future benefits are uncertain. The impact of the future benefits to Badger are highly dependent on future taxable earnings, in addition to the amount of invested capital, primarily hydrovacs, that are placed into the United States, which depending on the amount and the year, may have a significant impact on Badger's United States taxable income as a result of the impact of the bonus depreciation provisions and the BEAT.

Income Tax Receivable – 2015 Transfer Pricing Benefit

As previously disclosed in Badger's 2015 annual financial statements and MD&A, during 2015, Badger completed a review of its transfer pricing activities with respect to the sale of hydrovac and other vehicles from Canada to its U.S. operating subsidiaries for the years 2009 through 2013, resulting in Badger amending previously filed Canadian and U.S. income tax returns. As a result of this process, Badger recognized a net benefit of \$9.2 million in its 2015 financial statements as a reduction of income tax expense. The net benefit consisted of a US\$12.1 million receivable from U.S. taxation authorities with an offsetting \$7.4 million liability payable to Canadian taxation authorities. The net tax asset was previously recognized as a component of Badger's total deferred income tax asset/liability on Badger's balance sheet. While the receivable from the U.S. taxation authorities is subject to review from the respective taxation authorities, further details provided below, the liability for taxes owed to the Canadian taxation authorities as a result of the transfer pricing review were paid by Badger in prior years, as such, no additional material net future cash liabilities associated with the transfer pricing activity are anticipated.

In the fourth quarter of 2017, in conjunction with accounting for the impact of the Revised Tax Legislation, Badger classified the US\$12.1 million asset as a long-term income tax receivable; as noted above, the asset was previously shown on a net basis as a component of Badger's deferred income tax liability. The US\$12.1 million tax asset is not required to be revalued based on the updated U.S. federal corporate income tax rate, as it relates to prior taxation years. The value of the tax asset is determined based on the income tax rates in effect for the respective taxation years the asset relates to.

The review and finalization of the amended tax returns as a result of the transfer price initiative which resulted in the US\$12.1 million tax asset is ongoing and is currently with the relevant review bodies within the Canadian and U.S. taxation authorities ("Competent Authority"). It is not possible to provide a detailed timeline, as Badger does not influence or control the timing of the review by the Competent Authority. As a result of the Competent Authority accepting to resolve this matter, Badger will not be subject to the potential risk of double taxation. Therefore, Badger does not anticipate the final resolution of this matter having a material impact on future period net earnings.

Net Profit

Net profit for the year ended 2017 was \$65.9 million, a 128% increase over net profit of \$28.9 million in the prior year. The increase in net profit is due primarily to strong revenue growth and improved asset utilization, reduced income taxes and share-based compensation expense, offset by higher general and administrative costs, all of which are fully described previously in this MD&A.

Other Comprehensive Income

Total other comprehensive income (“OCI”), which includes the effect of translating U.S. operations and the offsetting translation of U.S. dollar denominated senior secured notes that are designated as a hedge of the U.S. operations, resulted in a net other comprehensive gain of \$6.6 million in 2017, compared to a gain in other comprehensive income of \$3.2 million in 2016. The unrealized gain for 2017 is primarily due to the U.S. dollar weakening relative to the Canadian dollar as at December 31, 2017 compared to December 31, 2016. Other comprehensive income has no impact on Badger’s cash flow from operations or Adjusted EBITDA.

Liquidity and Dividends

Cash flow from operating activities for 2017 was \$87.4 million, compared to the prior year of \$79.1 million. Cash flow from operating activities was impacted by higher net earnings, offset by higher net working capital due to the growth in Badger’s business throughout 2017. Cash flow from operating activities before non-cash working capital adjustments was \$123.7 million in 2017 compared to \$104.8 million in the prior year. The increase in cash flow from operating activities before non-cash working capital adjustments is due to higher net earnings and consequently higher Adjusted EBITDA in the current year.

Working capital is a normal course component of Badger’s business. Changes in working capital levels may result from increasing or decreasing revenue or the timing of working capital changes due to seasonality in Badger’s operations. Badger had working capital of \$113.9 million at December 31, 2017, compared to \$121.1 million at December 31, 2016. Working capital as at December 31, 2017 compared to December 31, 2016, was impacted by higher accounts receivables due to the growth in revenue, offset by lower cash and cash equivalents and higher trade and other payables as a result of increased operational and hydrovac build activity levels.

The largest component of Badger’s working capital is trade and other receivables. Trade and other receivables totaled \$112.0 million at December 31, 2017, compared to \$92.5 million at December 31, 2016. The increase in trade receivables is due to revenue growth in 2017 compared to 2016. Included in total trade and other receivables at December 31, 2017 was \$1.8 million in accrued revenue, compared to \$2.4 million at December 31, 2016. Accrued revenue is recognized only when it meets the requirements of Badger’s revenue recognition policy.

As at December 31, 2017, 83% of Badger’s trade receivables were aged 90 days or less, consistent with the ageing at December 31, 2016 (85% aged 90 days or less). The majority of the modest difference in the ageing of accounts receivable is the result of hurricane related accounts receivables, which took longer for Badger’s customers to process and pay, largely due to administrative disruptions throughout the fourth quarter as a result of the hurricanes. All hurricane related receivables were collected subsequent to December 31, 2017.

The Company utilizes its cash and cash equivalents to pay dividends to shareholders, to build additional hydrovacs units, to fund day-to-day operations, 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 syndicated credit facility. Badger's access to liquidity is sufficient to meet the existing operational and capital expenditure needs of the business.

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 maintain a credit rating.

Key Initiatives

During 2017, in addition to day-to-day operational improvements, Badger was focused on the execution of several strategic initiatives in order to drive the Company's longer-term strategic milestones. The following areas saw significant progress throughout 2017:

- Strengthening the human resources organization to facilitate operator hiring and retention, and improving operational management and administrative capabilities;
- Enhancing the business development function to drive revenue growth through customer education on the uses and benefits of hydro excavation;
- Augmenting common operating practices and developing a road map for a corporate wide common operating platform; and
- Leveraging technology across all aspects of our business to both enhance our hydrovacs and improve our cost structure.

Badger will continue to provide updates on these key initiatives throughout 2018. In particular, the implementation of a corporate wide common operating platform, which will provide Badger with the ability to implement and integrate new technologies while ensuring the consistency of best practices across all aspects of operations.

Outlook

Badger continues to see growth in the use of hydrovac for non-destructive excavation as a result of ongoing customer adoption, particularly in its U.S. markets. Badger expects to see improvements in revenue as a result of investments in developing its branch network and its business development function. The overall macro-economic environment in both the U.S. and Canada is anticipated to be supportive of ongoing infrastructure, construction and oil and gas activity levels for 2018.

Continued growth in Badger's end use markets and geographies through 2017 has resulted in an increase in revenue and improved fleet utilization as evidenced by higher realized RPT. Based on existing and forecasted activity levels, Badger anticipates that its total hydrovac builds for fiscal 2018 will be approximately 140 to 180 units. The retirement of hydrovacs for fiscal 2018 is anticipated to be in the range of 60 to 80 units. Consistent with prior years, Badger actively manages both its build rate and retirement rate based on current and future customer demand, in addition to the ongoing assessment of the cost of repairing and maintaining a hydrovac versus retiring and replacing a unit.

Capital Resources

Investing

Badger invested \$83.6 million on property, plant and equipment for the year ended 2017, compared to \$23.5 million in 2016. The majority of capital expenditures for 2017 related to the production of hydrovacs and the purchase of chassis in advance of future hydrovac production requirements. Chassis purchases are included with work-in-progress (“WIP”), in the summary of capital expenditures below.

For the year ended 2017, Badger completed 157 hydrovacs, compared to 55 hydrovacs in 2016.

Capital Expenditures

(\$ thousands)	Year ended December 31,	
	2017	2016
Hydrovac completed units and work-in-progress ⁽¹⁾⁽²⁾	73,661	17,558
Other vehicles and trailers	8,143	4,783
Buildings	869	30
Other	936	1,117
Total capital expenditures	83,609	23,488

⁽¹⁾ Total WIP, including chassis and WIP on other vehicles, recognized on Badger’s balance sheet as at December 31, 2017 and 2016, was \$11.9 million and \$5.8 million, respectively. The net change in WIP for the year ended 2017 was a cash outflow of \$6.1 million and for the year ended 2016 was a net inflow of \$1.9 million. The net change in WIP is included in Hydrovac units and WIP in the above table.

⁽²⁾ WIP includes hydrovacs currently being manufactured and chassis that will be used in future hydrovac builds. Badger will typically purchase chassis in advance of hydrovac builds due to the delay between ordering and receiving chassis.

Average Annual Hydrovac Manufacturing Cost

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

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

Badger’s average manufacturing cost, as detailed in the above table, is a pure manufacturing cost and does not take into account certain costs required to put the hydrovac into service. Finished hydrovacs, and the related total cost included in the summary of capital expenditures, includes the cost to manufacture plus additional non-refundable sales taxes, excise taxes and costs to place the unit in service such as shipping.

The non-manufacturing related costs, as noted in the above paragraph, required to place a finished hydrovac into service are dependent on the region where the hydrovac is put into service.

For 2017, Badger's average manufacturing cost was \$399,000 compared to \$375,000 in 2016 (**2016 - \$412,000 excluding the impact of 16 refurbished hydrovac units as noted in the footnote of the table above**). For purposes of assessing the annual cost to manufacture, comparing the 2017 average cost to the adjusted 2016 average cost is a more meaningful comparison. The decrease in the average manufacturing cost in 2017 compared to the adjusted 2016 manufacturing cost was due to lower overall labour costs as a result of efficiencies associated with manufacturing 157 hydrovacs in 2017 compared to 55 in 2016, the benefit of which, more than offset modestly higher chassis and other material costs.

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

See "Outlook" for additional details on Badger's 2018 anticipated hydrovac build and retirements.

Normal Course Issuer Bid

Badger's strong financial performance in 2017, combined with the expectation of future growth consistent with our strategic milestones, and the strength of Badger's balance sheet, underpins Badger's belief that from time-to-time, the share price does not reflect the underlying value of Badger's common shares. As such, Badger intends to make an application to implement a NCIB of up to 2,000,000 common shares through the facilities of the Toronto Stock Exchange and other Canadian marketplaces, pursuant to which Badger would have an option to repurchase its common shares for cancellation. The NCIB will provide Badger with an additional option to increase long-term total shareholder returns.

Financing

Syndicated credit facility

Badger has a syndicated revolving credit facility (the "credit facility") with a syndicate of three lenders. The credit facility, which is \$144.1 million in aggregate Canadian dollars, consists of a \$50.0 million Canadian tranche and a US\$75.0 million (\$94.1 million Canadian dollar equivalent as at December 31, 2017) U.S. denominated tranche, providing Badger with the administrative flexibility to borrow in both Canada and the United States. The credit facility, which is a four year term, matures on August 11, 2021. Badger has the flexibility to expand the credit facility, subject to approval by the lenders, by an additional \$100.0 million.

Badger maintains the credit facility for general liquidity management, general corporate purposes and to finance Badger's capital expenditure program. 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/LIBOR 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/LIBOR tiers range 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 Compliance EBITDA ratio. Stand-by fees are expensed as incurred.

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

As at December 31, 2017, the Company has issued letters of credit of \$3.3 million (December 31, 2016 - \$3.7

million). The outstanding letters of credit, which reduce the amount of available credit under the syndicated credit facility, support Badger's U.S. insurance program and certain other performance bonds.

At December 31, 2017, the Company had available \$140.8 million (December 31, 2016 - \$121.3 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Senior Secured Notes

On January 24, 2014, Badger closed a private placement of senior secured notes. The notes, which rank pari passu with the credit facility, have a principal amount of US\$75.0 million (\$94.1 million Canadian equivalent at December 31, 2017) and an interest rate of 4.83% per annum and mature on January 24, 2022. The Canadian dollar equivalent on January 24, 2014 was \$82.9 million. Amortizing principal repayments of US\$25.0 million are due under the notes on January 24, 2020, January 24, 2021 and January 24, 2022. Interest is paid semi-annually in arrears.

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

Compliance

Under the terms of the credit facility and the senior secured notes, the Company must comply with certain financial and non-financial covenants, as defined by the respective credit agreements. More specifically, the Company's material financial covenants and the summary of the compliance with these covenants is as detailed in the summary below.

Financial covenant	December 31, 2017	December 31, 2016	Threshold
Funded Debt to Compliance EBITDA ⁽¹⁾⁽²⁾	0.7:1	1.0:1	2.75:1 max
Interest Coverage Ratio ⁽¹⁾⁽³⁾	22.3:1	19.1:1	3.00:1 min
Tangible Net Worth ⁽¹⁾	\$290.1 million	\$240.3 million	\$167.1 million

⁽¹⁾ See Non-IFRS measures for additional details on the calculation of Funded Debt, Compliance EBITDA and Tangible Net Worth.

⁽²⁾ Funded Debt to Compliance EBITDA as at December 31, 2017 calculated as \$87.4 million in Funded Debt divided by \$122.6 million of Compliance EBITDA and for December 31, 2016 calculated as \$94.4 million in Funded Debt divided by \$95.5 million of Compliance EBITDA.

⁽³⁾ The Interest Coverage Ratio is calculated as Compliance EBITDA divided by interest expense. For the fiscal year ended 2017 calculated as \$122.6 million in Compliance EBITDA divided by \$5.5 million in interest expense and for the fiscal year ended 2016 calculated as \$95.5 million in Compliance EBITDA divided by \$5.0 million in interest expense. Interest Expense is calculated in accordance with IFRS on a trailing 12 month basis.

Throughout 2017, and as at December 31, 2017, the Company was in compliance with these covenants and all other covenants. For additional details on the credit facilities, including the financial and non-financial covenants, see the Company's 2017 audited consolidated financial statements and the Company's 2017 Annual Information Form.

Share Capital

As at March 27, 2018, December 31, 2017 and December 31, 2016, the common shares outstanding and the weighted average common shares outstanding were 37,100,681. Badger does not currently have any material financial instruments which can be converted into additional common shares.

Contractual Obligations and Other Commitments

The Company had the following contractual obligations and commitments at December 31, 2017:

<i>(\$ thousands)</i>	2018	2019	2020	2021	2022	Thereafter	Total
Operating leases ⁽¹⁾	5,485	3,476	1,963	1,106	617	20	12,667
Senior secured note interest ⁽²⁾	4,704	4,704	3,920	2,352	784	-	16,464
Senior secured note repayment ⁽³⁾	-	-	32,465	32,465	32,465	-	97,395
Purchase commitments ⁽⁴⁾	25,450	-	-	-	-	-	25,450
Total	35,639	8,180	38,348	35,923	33,866	20	151,976

⁽¹⁾ Operating leases include building and office space.

⁽²⁾ Senior note interest is the interest due on the Company's senior secured notes at 4.83% per annum paid semi-annually in arrears translated into Canadian dollars at the average U.S. to Canadian exchange rate for 2017. See notes to the audited consolidated financial statements for additional details.

⁽³⁾ Senior note repayment is the principal amounts of the senior secured notes translated into Canadian dollars at the average U.S. to Canadian exchange rate for 2017. See notes to the audited consolidated financial statements for additional details.

⁽⁴⁾ Purchase commitments include various purchases for truck manufacturing.

Selected Annual Financial Information ⁽¹⁾

<i>(\$ thousands, except per share amounts)</i>	2017	2016	2015
Revenue	499,236	404,202	404,620
Net profit	65,852	28,912	38,488
Net profit per share, basic and diluted	\$1.77	\$0.78	\$1.04
Total assets	501,348	458,347	446,685
Total non-current liabilities	128,146	135,466	138,740
Dividends paid	15,433	14,247	13,348
Dividends per share	\$0.42	\$0.38	\$0.36

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

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

- Increased usage and demand for Badger's hydrovac services, particularly in the United States, which is Badger's largest market. The increase in customer demand has resulted in an increase in revenues, gross dollar direct costs, general and administrative costs and Adjusted EBITDA;
- Additional investments related to the manufacture of hydrovac units and funding an increase in net working capital associated with the underlying growth in the business;
- Updated U.S. income tax legislation, effective December 22, 2017, impacted Badger's 2017 deferred income taxes – see "U.S. Income Tax Changes" for additional details;
- Revenues in 2016 compared to 2015 were impacted by the slowdown in North American oil and gas activity; and
- Net profit in 2015 was impacted by a deferred income tax recovery as a result of the implementation of certain transfer pricing activities.

Fourth Quarter Results

Financial Highlights

(\$ thousands, except revenue per truck per month, per share and share information)	Three months ended December 31,	
	2017	2016
Revenue:		
Hydrovac service revenue	121,232	101,577
Other service revenue	11,437	9,094
Truck placement revenue	120	225
Total revenue	132,789	110,896
Revenue per truck per month ("RPT") ⁽¹⁾ – quarterly	31,300	27,023
Adjusted EBITDA ⁽¹⁾	34,539	28,433
Adjusted EBITDA Margin ⁽¹⁾	26.0%	25.6%
Profit before tax	19,698	14,204
Net profit	31,244	7,350
Net profit per share, basic and diluted	\$0.84	\$0.20
Cash flow from operating activities before working capital adjustments	34,364	28,763
Cash flow from operating activities before working capital adjustments per share, basic and diluted	\$0.93	\$0.78
Dividends paid	4,043	3,673
Weighted average common shares outstanding	37,100,681	37,100,681

⁽¹⁾ See "Non-IFRS Financial Measures" and "Key Financial Metrics" for additional detail on the definition and calculation of Adjusted EBITDA, Adjusted EBITDA Margin and revenue per truck per month.

Comparable IFRS Financial Information ⁽¹⁾

(\$ thousands, except per share information)	Three months ended December 31,	
	2017	2016
Cash flow from operating activities	42,252	26,668
Cash flow from operating activities per share, basic and diluted	\$1.14	\$0.72

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

Fourth Quarter 2017 Operational Highlights

- Badger generated Adjusted EBITDA of \$34.5 million for the three months ended December 31, 2017 compared to \$28.4 million in the prior year comparative period. Improvements in Adjusted EBITDA were driven by revenue growth, higher hydrovac utilization and expense management.
 - Revenue for the three months ended December 31, 2017, of \$132.8 million was \$21.9 million or 20% higher compared to \$110.9 million in the prior year comparative period.
 - In Canada, revenue was \$39.1 million for the three months ended December 31, 2017, 11% higher than the prior year comparative period with revenue of \$35.2 million. In the U.S., revenue for the three

months ended December 31, 2017 was US\$73.5 million, 29% higher than the prior year comparative period with revenue of US\$56.8 million.

- RPT was \$31,300 for fourth quarter of 2017 compared to \$27,023 in the prior year comparative period. The year-over-year improvement in RPT was driven by a combination of revenue growth and improved fleet utilization. Optimization of the fleet is driven through Badger's broad network of local branches providing the opportunity to transfer units to locations with stronger activity levels.
- Adjusted EBITDA Margin for the fourth quarter of 2017 was 26.0% compared to 25.6% in the prior year comparative period.
 - Adjusted EBITDA margin in the fourth quarter of 2017 benefited from revenue growth, higher hydrovac utilization and expense management initiatives. Direct costs as a percentage of revenue for the fourth quarter of 2017 were modestly lower than the prior year comparative period, partially offset by an increase in general and administrative expenses.
- Net profit for the three months ended December 31, 2017 was \$31.2 million or \$0.84 per share compared to \$7.4 million or \$0.20 per share in the prior year. Net profit was impacted by higher EBITDA as discussed above and reduced income tax expense due to the changes in U.S. federal income tax legislation which were enacted on December 22, 2017. As disclosed earlier in this MD&A, see "U.S. Income Tax Changes" for additional details on the impact of the Revised Tax Legislation.

Results of Operations

Revenues

Revenues of \$132.8 million for the three months ended December 31, 2017, were 20% higher than the \$110.9 million generated during the prior year comparative quarter. Consistent with the trends from the third quarter of 2017, Badger continued to realize improved demand for hydrovac and related services across the majority of its operating regions and end use markets. More specifically, the increase in the fourth quarter of 2017 over the same quarter of the prior year is attributable to the following:

- Revenue from the U.S. operations increased by 29% to US\$73.5 million in the three months ended December 31, 2017 from US\$56.8 million in 2016. Revenue improvements in the quarter were achieved by continued growth with Badger's existing customer base, expanding the business into new markets, the positive benefit of recovery in oil and gas producing regions, and consistent to modestly higher average hydrovac rates. U.S. denominated revenue converted to Canadian dollars was \$93.7 million for the three months ended December 31, 2017, compared to \$75.7 million in the prior year comparative period, a 24% increase. The average foreign currency rate for the fourth quarter 2017 was CDN\$1.27 to US\$1.00 compared to CDN\$1.33 to US\$1.00 in the prior year.
- Canadian revenue increased by 11% to \$39.1 million for the three months ended December 31, 2017, compared to \$35.2 million in the prior year comparative quarter. The increase in revenue in Canada was due to improvements in non-oil and gas customer demand for hydrovac services in both Western and Eastern Canada. In addition, Badger continues to see improvements in demand in oil and gas producing regions.
- Other services revenue for the three months ended December 31, 2017, was \$11.4 million compared to \$9.1 million in the prior year comparative quarter. The increase in other revenue is due primarily to higher general activity levels, particularly in the U.S. operations.
- Truck placement revenue of \$0.1 million in the three months ended December 31, 2017 represents fees paid by franchisees for new hydrovacs received and put into service by the franchisees during the quarter. Truck

placement revenue will vary on a quarter-over-quarter basis due to the variability in timing of when a franchise may require a new hydrovac.

Badger's RPT for the three months ended December 31, 2017 was \$31,300 compared to \$27,023 in the prior year comparative quarter. Revenue per truck increased as a result of a combination of higher overall revenues and the ongoing optimization of Badger's fleet. Badger continues to assess its fleet in order to optimize operating performance and to respond to regional customer demand. Badger is uniquely positioned to be able to respond to customer service requirements due to its large hydrovac fleet and extensive branch network.

RPT is a mixed currency measure, for additional information, refer to the definition of this measure under the "Key Financial Metrics" section.

Direct Costs

Direct costs for the three months ended December 31, 2017, were \$91.7 million compared to direct costs of \$78.3 million in the prior year comparative quarter. On a dollar basis, the increase in direct costs was directly attributable to higher revenues and increased customer demand. As a percentage of revenue, direct costs were consistent with the prior year. Direct costs as a percentage of revenue were 69% for the three months ended December 31, 2017, consistent with 71% in the prior year comparative quarter. Direct costs in 2017 were positively impacted by improved asset utilization, offset in part by higher fuel, insurance and repairs and maintenance expenses. Badger continues to manage its overall costs through active expense management and fleet utilization, the benefits of which have offset higher costs due to general inflation and costs associated with the growth in Badger's overall business such as recruitment, business development, fleet, and health and safety activities.

Gross Profit

Gross profit for the three months ended December 31, 2017, was \$41.1 million compared to \$32.6 million in the prior year comparative quarter. Gross profit margin was 30.9% for the three months ended 2017, compared to 29.4% for the prior year comparative quarter.

Gross profit margin for the Canadian operations was 27.7% for the three months ended December 31, 2017, compared to 24.0% in the prior year comparative quarter, with gross profit margin in the U.S. operations of 32.3% for the three months ended December 31, 2017, compared to 31.9% in the prior year comparative quarter. Gross profit margins in the U.S. were driven by a combination of changes in end use market and regional sales mix, higher revenue per truck, partially offset by higher repairs and maintenance costs. Gross profit margins in Canada benefited from higher revenues, increased revenue per truck and reduced direct operating expenses. Direct operating costs in both Canada and the U.S. benefited from active expense management in the fourth quarter. Active expense management is critical into the end of the fourth quarter and into the first quarter of any respective year due to the seasonal slowdown in Badger's business as a result of weather conditions and holidays, which typically have a negative short-term impact on customer demand.

Average hydrovac rates for the fourth quarter of 2017 compared to the prior year comparative quarter were consistent to modestly higher across both the Canadian and U.S. markets. Gross profit margin in both Canada and the U.S. benefitted from the positive trends in RPT. A higher RPT may result in higher average margins as less direct fixed costs as a percentage of revenue are required to support the incremental revenue in the business.

General and Administrative Expenses

General and administrative expenses for the three months ended December 31, 2017, were \$6.6 million compared to \$4.2 million in the prior year comparative quarter. As a percentage of revenue, general and administrative expenses were 4.9% in the fourth quarter of 2017 compared to 3.7% in the prior year comparative quarter. The increase in general and administrative expenses compared to the prior year quarter is due primarily to higher short-term incentive plan costs, additional salary and benefits due to higher headcount and professional costs associated with general corporate activities and ongoing strategic initiatives. The increase in short-term incentive plan costs in the current year quarter is due to Badger's strong year-to-date financial performance combined with additional headcount. The increase in headcount is the result of Badger's ongoing investment in additional management and administrative resources to facilitate Badger's current and future growth objectives. Badger's target for general and administrative expenses on a long-term annualized basis remains at 4.0% of revenue.

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was \$11.9 million for the three months ended December 31, 2017, compared to \$11.0 million in the prior year comparative quarter. The increase in depreciation expense is the result of additional hydrovacs put into service throughout 2017. During the fourth quarter of 2017 and fiscal 2017, Badger placed 28 and 85 net incremental hydrovacs into service, respectively.

Share-based Compensation Expense

Share-based compensation expense was \$1.3 million for the three months ended December 31, 2017, compared to an expense of \$2.3 million in the prior year comparative quarter. Stock-based compensation expense will fluctuate based on the effects of the current period movement in Badger's share price combined with the impact of normal course vesting of previously issued long-term incentive plan grants.

Gain or Loss on Sale of Property, Plant and Equipment

Loss on the sale of property, plant and equipment for the three months ended December 31, 2017 was \$0.3 million as the residual value of units retired and disposed of was modestly in excess of the proceeds on disposal.

Finance Cost

Finance cost of \$1.3 million for the three months ended December 31, 2017, was consistent with the \$1.0 million recognized in the prior year comparative period.

Income Tax

Total income tax expense (recovery) for the three months ended December 31, 2017 was a recovery of \$11.5 million compared to an expense of \$6.9 million in the prior year comparative period. Included in total income tax expense (recovery) were current income taxes of \$2.4 million and a deferred income tax recovery of \$13.9 million for three months ended December 31, 2017, compared to \$4.2 million in current taxes and \$2.7 million in deferred income taxes in the prior year comparative period.

Current income tax expense of \$2.4 million for the three months ended December 31, 2017 included a \$3.0 million benefit due to the revised accelerated depreciation provisions which provided for a 100% deduction of hydrovacs and other eligible capital put into service in the U.S. after September 27, 2017. The changes to federal corporate income tax rates do not take effect until January 1, 2018, as such, there was no impact on Badger's 2017 current income tax expense due to rate reductions.

Deferred income taxes for the three months ended December 31, 2017, were a recovery of \$13.9 million compared to an expense of \$2.7 million in the prior year comparative period. As previously discussed, the deferred income tax recovery recognized for the three months ended December 31, 2017, is a result of changes to U.S. tax legislation. Badger's deferred income tax liability, which was previously calculated using a U.S. federal corporate income tax rate of 35%, was revalued at the revised U.S. federal tax rate of 21%. Applying the updated U.S. federal corporate income tax rate of 21% to Badger's deferred income tax liability, resulted in a reduction of the deferred income tax liability of \$17.2 million, with a corresponding recovery recognized in Badger's provision for deferred income tax expense (recovery).

See "U.S. Income Tax Changes" for additional details on the Revised Tax Legislation's impact on Badger.

Net Profit

Net profit for the three months ended December 31, 2017, was \$31.2 million compared to \$7.4 million in the prior year comparative period. The increase in net profit is due primarily to the deferred income tax recovery, strong revenue growth and improved assets utilization, all of which are fully described previously.

Other Comprehensive Income

Total other comprehensive income, which includes the effect of translating U.S. operations and the offsetting translation of U.S. dollar denominated senior secured notes that are designated as a hedge of the U.S. operations, resulted in a net other comprehensive gain of \$0.1 million for the three months ended December 31, 2017, compared to a gain in other comprehensive income of \$3.2 million in the prior year comparative quarter. Other comprehensive income has no impact on Badger's cash flow from operations or Adjusted EBITDA.

Liquidity and Dividends

Cash flow from operating activities for the three months ended December 31, 2017 was \$42.3 million, compared to the prior year comparative quarter of \$26.7 million. Cash flow from operating activities was primarily impacted by higher net earnings offset by higher current taxes. Cash flow from operating activities before non-cash working capital adjustments was \$34.4 million in the three months ended December 31, 2017, compared to \$28.8 million in the prior year comparative quarter. The increase in cash flow from operating activities before non-cash working capital adjustments is due to higher net earnings and consequently higher Adjusted EBITDA in the current year quarter.

Capital Resources

Investing

Badger invested \$21.7 million on property, plant and equipment for the three months ended December 31, 2017, compared to \$6.0 million for the three months ended December 31, 2016. The majority of capital expenditures for the fourth quarter of 2017 related to the production of hydrovacs and the purchase of chassis in advance of future hydrovac production requirements. Chassis purchases are included with work-in-progress in the summary of capital expenditures detailed below. For the three months ended December 31, 2017, Badger completed 45 hydrovacs, compared to 10 hydrovacs in the prior year comparative quarter. For the twelve months ended December 31, 2017, Badger manufactured 157 hydrovacs, compared to 55 hydrovacs in the prior year.

See the discussion on "Capital Resources" and "Investing" for the years ended 2017 and 2016 for additional details on capital spending including details on the manufactured cost of hydrovacs for fiscal 2017 and 2016.

Capital Expenditures

(\$ thousands)	Three months ended December 31,	
	2017	2016
Hydrovac trucks and work-in-progress	19,388	4,299
Other vehicles and trailers	2,196	1,222
Buildings	52	-
Other	98	471
Total capital expenditures	21,734	5,992

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, 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 Company's credit facility approximates fair value because the credit facility has a floating interest rate. The fair value of the Company's senior secured notes are disclosed in the 2017 audited annual consolidated financial statements.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash flows from financial assets on hand at the balance sheet date. A substantial portion of the Company's trade receivables is with customers in the utility, construction and petroleum industries and are 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 a credit facility and an insurance program to minimize exposure to insurable losses.

Market risk

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

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on a portion of its long-term debt whose rate is floating. Interest is calculated based on prime lending rates, banker's acceptance rates (BA) or the London interbank offered rate (LIBOR) and is dependent on the nature of the borrowing. Interest rates are subject

to change. 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, fixed interest rate contracts or other similar derivative instruments to manage its exposure to interest rate fluctuations, but has chosen to issue US\$75.0 million in fixed rate senior secured notes which fixes interest exposure on 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. The Company does not foreign currency forward contracts or similar derivative instruments to manage its exposure to foreign currency fluctuations.

Selected Quarterly Financial Information

(\$ thousands, except per share amounts)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	132,789	141,285	123,351	101,811	110,896	113,167	91,981	88,157
Net profit	31,244	16,192	14,718	3,698	7,349	11,944	5,951	3,668
Net profit per share, basic and diluted (\$)	\$0.84	\$0.44	\$0.40	\$0.10	\$0.20	\$0.32	\$0.16	\$0.10
Dividends paid	4,229	3,858	3,673	3,673	3,673	3,673	3,562	3,339
Dividends per share, basic and diluted (\$)	\$0.114	\$0.104	\$0.099	\$0.099	\$0.099	\$0.099	\$0.096	\$0.090

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

- Increased usage and demand for Badger's hydrovac services, particularly in the United States, which is Badger's largest market. The increase in customer demand has resulted in an increase in revenues, gross dollar direct costs, general and administrative costs and Adjusted EBITDA;
- Additional investments related to the manufacture of hydrovac units and funding an increase in net working capital associated with the underlying growth in the business; and
- Updated U.S. income tax legislation, effective December 22, 2017, impacted Badger's Q4 2017 deferred income taxes – see "U.S. Income Tax Changes" for additional details.

Key Financial Metrics and Other Operational Metrics

“Revenue per truck per month” (RPT) is a measure of hydrovac fleet utilization. It is calculated using hydrovac revenue only. RPT is calculated by combining monthly Canadian and U.S. dollar hydrovac revenue for a respective period, without converting foreign currency revenues into a Canadian dollar equivalent, dividing the total mixed currency hydrovac revenue for the period by the cumulative number of hydrovacs at the end of each month, calculated cumulatively, for the same period.

Revenue per Truck

Revenue per truck per month – quarterly average	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total	31,300	34,125	29,141	24,747	27,023	28,062	23,038	21,105

Revenue per truck for the twelve months ended December 31, 2017 was \$30,075 and for the twelve months ended December 31, 2016 was \$24,815.

Fleet Summary

Number of Hydrovacs	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Canada	362	361	353	343	356	353	358	361
U.S.	747	720	703	688	668	675	661	651
Total	1,109	1,081	1,056	1,031	1,024	1,028	1,019	1,012

Marketing and Franchise Agreements

Number of Marketing and Franchise Agreements	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Canada	10	10 ⁽³⁾	11 ⁽¹⁾	12	12	12	12	12
U.S.	3	3	3 ⁽²⁾	4	4	5	5	5
Total	13	13	14	16	16	17	17	17

⁽¹⁾ Badger purchased the assets of one operating partner due to the retirement of the owner.

⁽²⁾ Expiration and non-renewal of a U.S.-based franchise agreement.

⁽³⁾ Badger purchased the assets of an operating partner to facilitate the operating partner’s exit from the business.

Foreign Exchange Rates

1 USD:CAD	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Quarterly average	1.2713	1.2528	1.3457	1.3229	1.3340	1.3051	1.2885	1.3748
Period end	1.2545	1.2480	1.2977	1.3323	1.3426	1.3116	1.3009	1.2970

The average foreign exchange rate of 1 U.S. dollar to the Canadian dollar for the twelve months ended December 31, 2017 was 1.2986 and for the twelve months ended December 31, 2016 was 1.3256.

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

Non-IFRS Financial Measures

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

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

Adjusted EBITDA is calculated as follows:

(\$ thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Adjusted EBITDA				
Net profit	31,244	7,349	65,852	28,912
Add:				
Depreciation of property, plant and equipment	11,943	10,968	45,458	43,425
Share-based compensation expense	1,298	2,311	1,679	6,904
Loss on sale of property, plant and equipment	250	35	305	2,410
Finance cost	1,254	1,009	5,523	4,952
Foreign exchange loss (gain)	96	(94)	791	(59)
Tax expense (recovery)	(11,546)	6,855	5,773	18,219
Adjusted EBITDA	34,539	28,433	125,381	104,763

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Adjusted EBITDA				
Revenue	132,789	110,896	499,236	404,202
Less:				
Direct costs	91,700	78,306	352,644	284,297
General and administrative expense	6,550	4,157	21,211	15,142
Adjusted EBITDA	34,539	28,433	125,381	104,763

“**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,	
	2017	2016	2017	2016
Adjusted EBITDA margin				
Adjusted EBITDA	34,539	28,433	125,381	104,763
Revenue	132,789	110,896	499,236	404,202
Adjusted EBITDA margin	26.0%	25.6%	25.1%	25.9%

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

Compliance EBITDA is calculated as follows:

(\$ thousands)	Twelve months ended December 31,	
	2017	2016
Compliance EBITDA ⁽¹⁾		
Net profit	65,852	28,912
Add:		
Depreciation of property, plant and equipment	45,458	43,425
Finance cost	5,523	4,952
Tax expense	5,773	18,219
Compliance EBITDA	122,606	95,508

⁽¹⁾ Compliance EBITDA for the three months ended December 31, 2017, and for the year ended December 31, 2017, are the same calculation.

“**Funded Debt**” consists of long-term debt including the current portion thereof and issued letters of credit, less up to a maximum of \$10.0 million in cash. Funded Debt is used by Badger to calculate compliance with its debt covenants and other credit information.

Funded Debt is calculated as follows:

(\$ thousands)	As at December 31,	
	2017	2016
Funded Debt		
Long-term debt	94,088	100,698
Current portion of long-term debt	-	-
Total debt	94,088	100,698
Add: issued letters of credit	3,325	3,725
Less: cash on hand ⁽¹⁾	(10,000)	(10,000)
Funded Debt	87,413	94,423

⁽¹⁾ Badger may deduct up to a maximum of \$10.0 million of cash on hand in the calculation of Funded Debt in accordance with the requirements of its credit facilities.

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

Tangible Net Worth is calculated as follows:

(\$ thousands)	As at December 31,	
Tangible Net Worth	2017	2016
Shareholders equity	318,494	279,071
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	(18,888)	(29,698)
Less: intangible assets and goodwill	(9,479)	(9,106)
Tangible Net Worth	290,127	240,267

Changes in Accounting Policies and Accounting Pronouncements

Changes in Accounting Policies

There were no new accounting standards that were adopted during 2017 or 2016.

Accounting Pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Committee (IFRIC). The affected standards applicable to Badger are as follows:

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers replaces IAS 11 - Construction Contracts, IAS 18 - Revenue, IFRIC 13 - Customer Loyalty Programmes, 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. 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. The five steps consist of:

- Identify the contract(s) with the customer;
- Identify the performance obligation(s) in the contract;
- Determine the transaction price;
- Allocate the transaction price to each performance obligation in the contract; and
- 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.

Under IAS 18, the Company was required to assess whether it was principal or agent to a transaction depending on when it had exposure to the significant risks and rewards associated with providing the service. Under IFRS 15, the factors used to make this determination are similar but with an emphasis on the context of the identification of the contract with the customer and control of the underlying services.

There is no material change expected to Badger's net profit or cash flows from operations as a result of the adoption of IFRS 15.

Badger's business model involves the provision of excavating series through two distinct methods: via Badger corporate operations and via operating partners in Canada or franchisees in the United States ("operating partner").

After assessing the IFRS 15 criteria, the Company has determined that in situations where an operating partner works directly with a customer, they have primary control over the provision of the services being provided. In these situations, the Company is acting as an agent on behalf of its operating partner. Beginning on January 1, 2018 such transactions will be presented in revenue, net of payments due to the operating partner. Under the previous standard, the Company assessed the basis of recognizing revenue on a gross versus net basis if the Company was exposed the Company to credit and collection risk based on the commercial substance of the transaction.

Additionally, the Company is assessing transactions with subcontractors and other related service providers, commonly referred to as third parties, against the new criteria of control of the service. In Badger's assessment, it is a principal in transactions where the Company has control in the execution of the underlying services. Transactions with third parties will be presented in revenue on a gross basis with any associated costs recognized and presented in direct costs. Under the previous standard, Badger considered the costs as flow through payments, with the Company as agent.

Badger intends to adopt the new standard on the effective date and continues to assess the effect that the new standard will have on its presentation and disclosure requirements, which is expected to be completed throughout the first quarter of 2018. Badger expects to apply IFRS 15 on a retrospective basis upon adoption.

IFRS 9 – *Financial Instruments*

The International Accounting Standards Board issued IFRS 9 – *Financial Instruments* that introduces new requirements for classifying and measuring financial instruments. The standard is effective for fiscal years beginning on or after January 1, 2018. Adoption of the standard on January 1, 2018, will impact the calculation of Badger's allowance for doubtful accounts with Badger recognizing the lifetime expected credit losses on the initial recognition of the related revenue. Badger has assessed the historical lifetime expected credit losses based on historical data to determine the expected future credit losses. Adoption of IFRS 9 on January 1, 2018, will not result in a material changes to the determination of Badger's anticipated credit losses and associated allowance for doubtful accounts and therefore is not anticipated to have a material impact on Badger's net earnings. Consistent with the requirements of IFRS 9, Badger will assess the lifetime expected credit losses on an ongoing basis and will update its assumptions, if and when required, accordingly.

IFRS 16 – *Leases*

The International Accounting Standards Board issued IFRS 16 – *Leases*, superseding the existing standard, IAS 17 – *Leases*. The standard is effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted, but only if the entity is also applying IFRS 15. 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, generally all leases will require an asset and liability to be recognized on the statement of financial position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The Company 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. Badger intends to adopt the new standard on the effective date and is currently assessing the effect that the new standard will have on its presentation and disclosure requirements, which is expected to be completed during 2018.

Critical Accounting Policies and Estimates

Badger's audited consolidated financial statements have been prepared in accordance with IFRS. The significant accounting policies are described in the audited financial statements for the year ended December 31, 2017. Certain of these accounting policies, as well as estimates made by management in applying such policies, are recognized as critical because they require management to make subjective or complex judgements about matters that are inherently uncertain at the time the accounting estimate is made, and if different estimates Badger could have used would have a material impact on Badger's financial condition, changes in financial condition or results of operation.

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

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 periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. Future results of operations could be materially affected by changes in the estimated useful lives due to factors mentioned above. The amounts and timing of recorded expenses would be affected by this as a reduction in the estimated useful lives of the property, plant and equipment would increase the recorded depreciation expense with an offset to the value of the related property, plant and equipment.

Depreciation

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. Changes to depreciation rates, if any, are reported prospectively if they occur.

Income Taxes

Current Income Taxes

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

recorded, such differences will affect the tax provisions in the period in which such determination is made.

Deferred Income Taxes

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

Deferred 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 tax liabilities may be impacted by a change in the likelihood of a future outflow and estimates of the expected settlement amount, timing of reversals and the tax laws in which the Company operates.

Tax pools and their recoverability

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

Allowance for Doubtful Accounts

The Company makes allowance for doubtful accounts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyzes historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance of doubtful accounts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables, with the corresponding difference recognized in direct costs as reported in the Company's consolidated statement of comprehensive income.

Determining Cash Generating Units

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

Impairment of Non-Financial Assets

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. An

impairment of non-financial assets would be recognized in the Company's consolidated statement of comprehensive income.

Intangible assets

Intangible assets consist of service rights acquired from the Company'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. A change in the remaining life of an intangible asset would affect the depreciation rate used to depreciate the intangible asset for assets being amortized, and for assets not being amortized could result in an impairment of the related asset, the impacts of which would be recognized in the Company's consolidated statement of comprehensive income as an amortization expense or as an asset impairment charge.

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. An impairment of goodwill would be recognized in the Company's consolidated statement of comprehensive income.

Functional currency

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

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure Controls and Procedures

Badger's President and CEO and its VP Finance and CFO have designed, or caused to be designed under their direct supervision, Badger's disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, adopted by the Canadian Securities Administrators) to provide reasonable assurance that (i) material information relating to Badger, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and (ii) material information required to be disclosed in Badger's annual filings, interim filings or other reports filed or submitted by it under Canadian securities legislation is recorded, processed, summarized and reported on a timely basis. Further, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's disclosure controls and procedures as at December 31, 2017 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, 2017 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 2017.

Inherent Limitations

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

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

- Badger anticipates continued growth in its Canadian and U.S. markets and that the overall macro-economic environment in both Canada and the U.S. is anticipated to be supportive of this growth;
- Badger continues to see customer demand as a result of increased usage of hydrovac for non-destructive excavation;
- Badger expects to see improvements in revenue as a result of investments in developing its branch network and business development function;
- Badger anticipates that the number of new hydrovac builds for 2018 will be approximately 140 units to 180 units and that hydrovac retirements for 2018 will be in the range of 60 to 80 units;
- Badger anticipates that changes to U.S. income tax legislation will positively impact current income taxes;
- The intention of Badger to pursue the implementation of a NCIB for up to 2,000,000 common shares and the related application to the TSX and other regulatory requirements;
- Badger's target for general and administrative expenses on a long-term annualized basis remains at 4% of revenue; and
- The cost to build a hydrovac may fluctuate due to production volume in the Red Deer manufacturing facility, cost of labour and materials and foreign currency as many materials are denominated or otherwise influenced by exchange rates.

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

- There will be customer demand for hydrovac services from infrastructure, construction, and oil and gas activity in North America;
- Badger will maintain relationships with current customers and develop successful relationships with new customers;
- Badger will collect customer payments in a timely manner;
- Badger will be able to compete effectively for the demand for its services;

- There will not be significant changes in profit margins due to pricing changes driven by market conditions, competition, regulatory factors or other unforeseen factors;
- The overall market for Badger's services will not be adversely affected by weather, natural disasters, global events, legislation changes, technological advances, economic disruption or other factors beyond Badger's control;
- Badger will execute its growth strategy including attracting and retaining key personnel;
- The recent changes to U.S. federal income tax legislation will be maintained; and
- Badger will obtain all labour, parts and supplies necessary to complete the planned hydrovac build at the costs expected.

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.

Risk Factors to Badger

The risk factors and uncertainties detailed below are a summary of Badger's assessment of its material risk factors as detailed in Badger's 2017 Annual Information Form under "Risk Factors" which is filed on the Canadian Securities Administrators' website, www.sedar.com and on Badger's website, www.badgerinc.com. Information contained within these websites does not constitute part of this MD&A. General risks to Badger are as follows:

Reliance on Certain End Use and Geographic Markets

Badger operates across a wide range of end use infrastructure markets and across a wide geographic footprint. Specifically, the oil and natural gas sector has historically been a significant end use market for Badger, accounting for approximately 34% of revenues for 2017. Badger could be subject to a downturn in any of its end use segments, including the market for oil and natural gas, and or in certain geographic markets in which Badger operates. Badger continues to focus on expanding its end use segments and geographies in order to diversify its customer demand risk, however no assurance can be provided that this expansion or diversification will be successful.

Competition

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

Expansion of Badger's Business into New Jurisdictions

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

Safety

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

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

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 could 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 negatively affect Badger's reputation among customers and the public, thereby making it more difficult for Badger to compete effectively, and could significantly affect the cost and availability of insurance in the future. Because Badger does not purchase replacement hydrovacs, but rather constructs them, Badger 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 are re-evaluated periodically as circumstances change.

Dependence on Key Personnel

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

Reliance on Key Suppliers

Badger sources the parts and products for the manufacture of its hydrovacs from a variety of suppliers. Should any suppliers of Badger be unable to provide the necessary products or otherwise fail to deliver products in the quantities required or at acceptable prices, any resulting 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, the ability of Badger to grow will be dependent on the Company having access, at a reasonable cost and in a timely manner, to parts and products required to manufacture hydrovacs. No assurance can be given that the Company will be successful in maintaining the required supply of parts and products to manufacture hydrovacs.

Fluctuations in Weather and Seasonality

Badger's operating results have been, and are expected to continue to be, subject to quarterly and other fluctuations due to a variety of factors including changes in weather conditions and seasonality. In the western United States, Badger has in the past, from time-to-time, 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 could have 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

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

Availability and Cost of Qualified Labour

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

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

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

Ability to Expand the Business

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

Compliance with Government and Related Regulations

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

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

In addition, Badger's securities have been sold to the public in Canada and are listed for trading on the Toronto Stock Exchange, and the Company is accordingly subject to regulation by Canadian securities regulators and Canadian federal and provincial laws and regulations. Although regulatory expenditures have not, historically, been material to the Company, such laws, regulations and guidelines are subject to change. Accordingly, it is impossible for the Company to predict the cost or effect of such future laws, regulations or guidelines on Badger's future operations.

Credit Risk

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

Litigation

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

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, financial condition, and results of operations.

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, financial condition, and results of operations.

Foreign Currency Risk

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

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

Interest Rates

Badger has certain floating rate loans and may be negatively impacted by increases in interest rates, the effect of which increase would be to reduce the amount of cash available for dividends. If interest rates decline, however, cash available for dividends may increase.

Changes in Laws or Regulations Governing Foreign Trade

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

On January 20, 2017, Donald J. Trump was inaugurated as the President of the United States. President Trump has expressed an intention to change existing trade agreements, such as the North American Free Trade Agreement ("NAFTA"). Implementation by the U.S. of new legislative or regulatory regimes or revisions to NAFTA could impose additional costs on the Company, decrease U.S. demand for the Company's products or otherwise negatively impact the Company, which may have a material adverse effect on the Company's business, financial condition and results of operations.

Development of Competing Technology and Equipment

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

excavation trends and technology, this could have a material adverse effect on its business, financial condition and results from operations.

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

Issuance of Additional Shares

Badger's articles of incorporation authorize the Company to issue an unlimited amount of common shares. The Company may issue additional common shares to raise funds. The by-laws of the Company provide that dividends may be paid by the Company by issuing fully paid common shares. The Company cannot predict the number of common shares it may issue, or the effect, if any, that an issue will have on the market price of the common shares. However, additional common shares issued by the Company may be dilutive to Badger's shareholders and such dilution could be significant.

Access to Capital

The agreements governing Badger's current credit facilities contain covenants that restrict Badger's ability to take various actions such as, amongst other things, the ability of Badger to incur additional debt, dispose of assets or pay dividends in certain circumstances. These restrictions may preclude Badger from incurring additional debt to fund operations or growth plans and/or preclude Badger from returning capital to shareholders.