Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2018

November 12, 2018

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto of Badger Daylighting Ltd. (the "Company" or "Badger") for the three and nine months ended September 30, 2018. Readers should also refer to all previous public filings, including the Company's 2017 audited annual consolidated financial statements and notes thereto and the Annual Information Form for the year ended December 31, 2017, both of which may be found on SEDAR at www.sedar.com.

This MD&A is dated and has been prepared taking into consideration information available to November 12, 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.

Financial Highlights

($ thousands, except revenue per truck per month, per share and share information)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2018	2017 [3]	**2018**	2017 [3]
Revenue:				
Hydrovac service revenue	**141,254**	121,270	**366,651**	312,930
Other service revenue	**27,400**	19,398	**69,482**	51,179
Truck placement revenue	**58**	235	**700**	637
Total revenue	**168,712**	140,903	**436,833**	364,746
Revenue per truck per month ("RPT") [1] - quarterly	**35,500**	34,125	**n/a**	n/a
Adjusted EBITDA[1]	**50,945**	38,881	**113,849**	90,842
Adjusted EBITDA per share, basic and diluted [1][2]	**1.37**	1.05	**3.07**	2.45
Adjusted EBITDA margin[1]	**30.2%**	27.6%	**26.1%**	24.9%
Profit before tax	**35,046**	24,745	**65,687**	51,927
Net profit	**25,689**	16,192	**44,349**	34,608
Net profit per share, basic and diluted [2]	**0.69**	0.44	**1.20**	0.93
Cash flow from operating activities before working capital and other adjustments	**50,169**	37,951	**113,558**	89,319
Cash flow from operating activities before working capital and other adjustments per share, basic and diluted [2]	**1.35**	1.02	**3.06**	2.41
Dividends paid	**5,009**	4,044	**13,987**	11,390
Weighted average common shares outstanding	**37,100,681**	37,100,681	**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.

(2) Per share, basic and diluted measures calculated by dividing the respective financial measure with the weighted average common shares outstanding for the respective period.

(3) Certain comparative revenue amounts for the three and nine months ended September 30, 2017 have been reclassified to conform to the current period presentation as a result of the adoption of IFRS 15. See "Changes in Accounting Policies – IFRS 15 – Revenue from Contracts with Customers" for additional details.

Comparable IFRS Financial Information [1]

($ thousands, except per share information)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Cash flow from operating activities	**22,001**	16,623	**67,186**	45,148
Cash flow from operating activities per share, basic and diluted [2]	**0.59**	0.45	**1.81**	1.22

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

[2] Per share, basic and diluted measures calculated by dividing the respective financial measure with the weighted average common shares outstanding for the respective period.

Overview

2018 Third Quarter Financial and Operational Highlights

- Badger generated Adjusted EBITDA of $50.9 million for the third quarter of 2018 compared to $38.9 million in the prior year comparative quarter. Improvements in Adjusted EBITDA were driven by revenue growth, higher hydrovac utilization as a result of a combination of an increase in operating hours and modest improvements in pricing, and active management of direct costs, partially offset by higher general and administrative expenses.
    - Revenue for the third quarter of 2018 of $168.7 million was $27.8 million or 20% higher compared to $140.9 million in the prior year comparative quarter.
    - In the United States ("U.S."), revenue for the third quarter of 2018 was US$99.0 million, US$19.0 million or 24% higher than the prior year comparative quarter of US$80.0 million. In Canada, revenue for the third quarter of 2018 of $39.4 million was consistent with the prior year comparative quarter with revenue of $39.5 million.
- Revenue per truck per month ("RPT") for the third quarter of 2018 was $35,500 compared to $34,125 in the prior year comparative quarter. The year-over-year improvement in RPT was driven by revenue growth due to a combination of sales volume and pricing improvements, combined with improved asset utilization by leveraging Badger's extensive branch network.
- Gross profit margin for the third quarter of 2018 was 34.5%, a 240 basis point or 7% increase over the prior year comparative quarter margin of 32.1%, with Adjusted EBITDA margin for the third quarter of 2018 of 30.2%, a 260 basis point or 9% increase over the prior year comparative quarter margin of 27.6%.
    - Margins in the third quarter of 2018 benefitted from a reduction in direct operating costs, modest improvements in pricing and improved asset utilization.
- Badger's third quarter 2018 results were not materially impacted by hurricane Florence, as incremental revenue associated with hurricane clean up activity was largely offset by operational down-time in hurricane impacted areas. Badger anticipates a modest positive impact to its fourth quarter results as extensive clean-up and reconstruction efforts are completed in the first half of the fourth quarter related to hurricane Michael and maintenance work on the natural gas distribution network in the U.S. Northeast is completed. Work related to hurricane Michael commenced early in the fourth quarter of 2018 and is expected to taper off throughout the quarter. Badger's extensive branch network allowed for the timely response to customer emergency response requirements by temporarily relocating over 100 hydrovacs into the hurricane impacted areas.
- Badger is introducing a financial outlook for 2018 and 2019 with Adjusted EBITDA of $150 to $160 million for 2018 and $170 to $190 million for 2019. See "2018 and 2019 Outlook" for additional details.

- During the third quarter of 2018, Badger placed 17 net hydrovacs into service, consisting of 51 new and 34 retired (for the nine months ended September 30, 2018, 98 net additions, consisting of 161 new and 63 retired). As at September 30, 2018, Badger had 1,207 hydrovacs in operation compared to 1,081 as at September 30, 2017 and 1,109 as at December 31, 2017. See "Outlook" and "Capital Resources" for additional details.
- Net profit for the third quarter of 2018 was $25.7 million or $0.69 per share compared to $16.2 million or $0.44 per share in the prior year comparative quarter. Net profit was positively impacted by higher Adjusted EBITDA, offset by modestly higher depreciation due to the growth in Badger's fleet.
- Badger continues to maintain a strong balance sheet and currently has no amounts drawn on its syndicated revolving credit facility, providing Badger with excellent flexibility to facilitate ongoing growth in the business. Badger's total debt less cash and cash equivalents was $73.4 million at September 30, 2018, with a corresponding debt less cash and cash equivalents to Compliance EBITDA ratio of 0.5X.

2018 and 2019 Outlook

Continued growth in Badger's end use markets and geographic areas throughout 2017 and 2018 has resulted in an increase in revenue and improved fleet utilization as evidenced by higher financial results and realized RPT in 2018. Badger anticipates that gross profit margin and RPT for 2019 will be similar to 2018.

Based on existing and forecasted activity levels, Badger anticipates that its 2018 Adjusted EBITDA will be in the range of $150 to $160 million with a hydrovac build of between 160 to 200 units and retirements of 60 to 80 units. For 2019, Adjusted EBITDA is anticipated to be in the range of $170 to $190 million with a hydrovac build of between 190 to 220 units and retirements of 40 to 60 units.

Badger's outlook for its 2018 hydrovac build and retirement rates are unchanged from the second quarter of 2018.

Badger's 2018 and 2019 outlooks assume that Badger will continue to realize and anticipates ongoing growth in the use of hydrovac for non-destructive excavation as a result of continued customer adoption, particularly in its U.S. markets. Badger expects to see improvements in revenue as a result of the scale of its extensive branch network combined with the ongoing benefits of sales and marketing related activities. The overall macro-economic environment in both the U.S. and Canada is anticipated to be supportive of ongoing infrastructure and construction activity levels for the remainder of 2018 and into 2019. Oil and gas activity levels are anticipated to continue to be strong in the U.S. but weaker in Canada for the remainder of 2018 and into 2019. Badger continues to see organic growth opportunities in the majority of its markets, although the ability to capture these opportunities may be partially limited by the availability of trained operators as the market for labour, particularly in oil and gas focused regions, continues to be challenging.

2018 Investor Day

Badger is holding an Investor Day on Thursday, November 15, 2018 at the King Edward Hotel in Toronto. An update on Badger's operations, short and long-term growth opportunities and financial position will be presented. Badger's executive and operational leadership teams will be in attendance. The formal presentation will commence at 9:00 a.m. EST, a light breakfast and lunch will be served. Attendance in person for this event is limited, to provide notice of your intention to attend, please RSVP by emailing your contact information to rsvpinvestorday@badgerinc.com. The presentation will be webcast and available on Badger's website www.badgerinc.com.

Results of Operations for the Three Months Ended September 30, 2018

Revenues

Revenues of $168.7 million for the third quarter of 2018 were 20% higher than the $140.9 million generated during the prior year comparative quarter. Throughout the third quarter of 2018, Badger realized improved demand for hydrovac and related services, particularly in its U.S. markets. The changes in revenue in the third quarter of 2018 over the prior year comparative quarter are attributable to the following:

- Revenue in the U.S. operations increased by 24% to US$99.0 million for the third quarter of 2018 compared to US$80.0 million in the prior year comparative quarter. Revenue growth throughout the third quarter of 2018 was attributable to continued growth from both new and existing customers, and the ongoing benefit of a recovery in certain oil and gas producing regions. Revenue growth in the U.S. was limited in some regions based on the availability of trained operators. Average hydrovac rates in the U.S. operations were consistent to modestly higher than the prior year comparative quarter. U.S. revenue converted to Canadian dollars was $129.3 million in the third quarter of 2018, compared to $101.4 million in the prior year comparative quarter, a 28% increase. The translation of U.S. dollar revenues to Canadian dollars benefited from a stronger U.S. dollar, as the average foreign currency rate for the third quarter of 2018 was CDN$1.31 to US$1.00 compared to CDN$1.25 to US$1.00 in the prior year comparative quarter.
- Revenue in the Canadian operations of $39.4 million was consistent with the prior year comparative quarter of $39.5 million, as modest improvements in general customer demand related to infrastructure, construction and oil and gas markets in certain regions were offset by a lack of available trained operators in Eastern Canada and delays in construction activity due to adverse weather conditions in certain markets, particularly in Western Canada. Western Canada experienced colder and wetter than normal weather conditions throughout the second half of the third quarter. Average hydrovac rates in the Canadian operations were consistent to modestly higher than the prior year comparative quarter.
- Higher revenues for the third quarter of 2018 compared to the prior year comparative quarter, particularly in Badger's U.S. operations can also be attributed to Badger's investment in its sales and marketing function, a key differentiator for Badger compared to its competitors. Badger continues to realize revenue growth as a result of increased market penetration, as the benefits and potential uses for hydrovac technology continue to be understood by Badger's existing and new customer base.
- Other services revenue for the third quarter of 2018 was $27.4 million or 16% of total revenue compared to $19.4 million or 14% of total revenue in the prior year comparative quarter. On both a dollar basis and a percentage of revenue basis, the increase in other revenue for the third quarter of 2018 was due primarily to sales and charges for services driven by hydrovac related activity levels combined with a modest increase in non-hydrovac related services.
- Truck placement revenue of $0.1 million in the third quarter of 2018 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 year-over-year basis due to the variability in timing of when a franchise may require a new hydrovac.

Badger's RPT for the third quarter of 2018 was $35,500 compared to $34,125 in the prior year comparative quarter. The improvement in RPT for the third quarter of 2018 was due primarily to a combination of higher overall revenues and customer growth as noted above. Badger continues to assess its fleet on an ongoing basis to optimize operating performance and 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 under the "Key Financial Metrics" section.

See "Changes in Key Financial Metrics and Classification of Revenue Groupings" for additional details on changes related to the calculation of RPT and the classification of revenue groupings anticipated with the Company's 2018 fourth quarter and annual disclosure documents.

Direct Costs

Direct costs for the third quarter of 2018 were $110.5 million compared to $95.7 million in the prior year comparative quarter. On a dollar basis, the increase in direct costs was driven by higher activity levels attributable to increased customer demand. As a percentage of revenue, direct costs for the third quarter of 2018 were 65.5%, 240 basis points or 4% lower than the prior year comparative quarter of 67.9%. Direct costs in the third quarter of 2018 benefitted from active cost management, in particular labour related costs. Labour related costs as a percentage of revenue were lower than the prior year comparative quarter as a result of a combination of the management of variable labour costs, growth of the business in lower labour cost regions and improved asset utilization, all of which more than offset the impact of general wage inflation. As a percentage of revenue, costs related to fuel, insurance and repairs and maintenance expenses were consistent with the prior year quarter. Badger continues to manage costs through active expense management and fleet optimization to mitigate higher costs due to general inflation and costs attributable to the growth in Badger's overall business such as recruitment, business development, fleet, and health and safety activities. Investments made in these areas of the business in previous quarters were made in incremental/discrete steps, resulting in increased scale within these functions. As a result, as Badger's business has grown throughout 2018 the costs associated with these functions, as a percentage of revenue, have not grown at the same rate as the underlying rate of growth in revenue.

Bad debt expense is included in direct costs and for the third quarter of 2018 was $2.9 million compared to $0.7 million in the prior year comparative quarter. The increase is the result of a collection issue associated with a single customer on a large scale, multi-location project involving multiple subcontractors. The receivables associated with this project were fully expensed in the current quarter, and as such there is no further financial exposure in future quarters. Badger continues to explore all remedies available to collect for the services provided related to this project. Excluding the impact of this specific account, bad debt expense was consistent with the prior year quarter.

Effective January 1, 2018, Badger adopted IFRS 9 – *Financial Instruments* which will impact the determination of Badger's allowance for doubtful accounts and the corresponding bad debt expense for all reporting periods in 2018 and beyond. IFRS 9 requires that Badger recognize the lifetime expected credit losses on the initial recognition of the related revenue, as opposed to the previous methodology of assessing the collectability of

individual customer accounts. As such, every dollar of revenue recognized by Badger will now result in an addition to bad debts expense based on the expected lifetime credit loss. Consistent with the requirements of IFRS 9, Badger will analyze and assess the lifetime expected credit losses on an ongoing basis and will update the assumptions used in its calculations, if and when required.

Gross Profit

Gross profit for the third quarter of 2018 was $58.2 million compared to $45.3 million in the prior year comparative quarter. Gross profit margin was 34.5% for the third quarter of 2018, compared to 32.1% for the third quarter of 2017. The margin in the U.S. operations was 35.5% in the third quarter of 2018 compared to 32.8% in the third quarter of 2017. For the Canadian operations it was 31.1% in the third quarter of 2018 compared to 30.3% in the third quarter of 2017. Gross profit margin improvements in the U.S. and Canada were driven by a reduction in direct operating costs, primarily improved labour efficiency as noted in the discussion on direct costs, combined with changes in sales mix in certain regions. Average hydrovac rates for the third quarter of 2018 compared to the prior year comparative quarter were consistent to modestly higher across the majority of the U.S. and Canadian markets.

Gross profit margin in both the U.S. and Canada, with the greatest impact in the U.S., benefitted from the positive trends in RPT. A higher RPT may result in higher average gross profit margins since lower 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 third quarter of 2018 were $7.2 million compared to $6.4 million in the prior year comparative quarter. As a percentage of revenue, general and administrative expenses were 4.3% in the third quarter of 2018 compared to 4.5% in the prior year comparative quarter. The modest decrease in general and administrative expenses as a percentage of revenue is the result of growth in revenue outpacing the investment in certain general and administrative functions made over the past twelve months. On a total dollar basis, the increase in general and administrative expenses compared to the prior year quarter is due primarily to additional salary and benefits as a result of higher headcount and higher professional costs associated with general corporate activities and ongoing strategic initiatives. The increase in headcount is the result of Badger's ongoing investment in additional administrative resources to facilitate Badger's current and future growth objectives. Higher professional fees relate to consulting costs to support several key strategic initiatives, enhanced corporate and investor communications and information technology support applications. Included in general and administrative expense for the third quarter of 2018 is $0.1 million ($0.1 million for the nine months ended September 30, 2018) in expense associated with upgrading and standardizing legacy information technology systems in to a single enterprise resource planning ("ERP") system, (the "Common Business Platform").

Badger's target for general and administrative expenses, excluding costs associated with the Common Business Platform, on a long-term annualized basis remains at 4.0% of revenue. As previously disclosed, Badger anticipates that general and administrative expenses will trend modestly above 4.0% on an annualized basis for fiscal 2018. The increase in the fiscal 2018 general and administrative expense run rate above Badger's long-term annualized target is due to investments in administrative resources made over the previous twelve months, anticipated investments to be made during the remainder of 2018, and costs associated with the Common Business Platform. Badger's business has grown rapidly, as such, these expenditures/investments are required to provide Badger with the scope and scale within its operational and administrative management functions to support current and future growth. The general nature of investments in operational and administrative management requires that certain

investments in people and technology be made in incremental/discrete steps, often in advance of future revenue growth. Badger continues to assess all of its activities, including current and future investments in its general and administrative functions.

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was $13.1 million for the third quarter of 2018, compared to $11.2 million in the third quarter of 2017. The increase in depreciation expense is the result of capital expenditures incurred during the trailing four quarters.

Share-based Compensation Expense

Share-based compensation expense was $0.3 million in the third quarter of 2018 compared to $0.8 million in the third quarter of 2017. The reduction in the expense is due primarily to changes in the market value of Badger's common shares during the third quarter of 2018. Share-based compensation expense will fluctuate based on the effects of the movement in Badger's share price combined with the impact of normal course vesting of previously issued long-term incentive plan grants and the issuance, if any, of new long-term incentive plan grants.

Gain or Loss on Sale of Property, Plant and Equipment

Loss on the sale of property, plant and equipment for the third quarter of 2018 was $0.4 million compared to $0.1 million in the prior year comparative quarter. The loss on the sale of property, plant and equipment is due to the residual value of units retired and disposed of being greater than the proceeds on disposal. Gains or losses on the disposition of property, plant and equipment will vary depending on the timing and type of equipment being disposed of in a respective quarter.

Finance Cost

Finance costs were $1.1 million for the third quarter of 2018, $0.6 million lower than the prior year comparative quarter of $1.7 million. The decrease in finance costs in the current year quarter is due to the absence of costs associated with the extension of Badger's syndicated revolving credit facility which were incurred in the prior year quarter but were not required in the current year.

There is currently no balance drawn on the Company's 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 annual audited consolidated financial statements.

Income Tax

Total income tax expense for the third quarter of 2018 was $9.3 million compared to $8.6 million in the prior year comparative quarter. Included in total income tax expense is current income tax expense of $3.4 million and deferred income tax expense of $5.9 million for the third quarter of 2018, compared to current income taxes of $8.6 million and deferred income tax recovery of nil in the prior year comparative quarter.

Current income tax expense for the third quarter of 2018 of $3.4 million is $5.2 million lower than the prior year comparative quarter due to reduced U.S. current income taxes. Current income taxes for the third quarter of 2018 consists primarily of Canadian current income taxes; no material provision for current income tax expense was required for the U.S. as a result of the recent changes to U.S. corporate tax legislation which were enacted in the fourth quarter of 2017. The U.S. tax changes, which Badger detailed in its 2017 annual MD&A, include the benefit of updated bonus depreciation provision, which allow for a 100% deduction of hydrovacs

and other eligible capital placed into service in the U.S., combined with the impact of the U.S. federal corporate income tax reduction to 21% from 35%. The reduction in the U.S. federal corporate income tax rate was effective January 1, 2018. The combined impact of the bonus depreciation provisions and the reduction in the U.S. corporate income tax rate eliminated Badger's U.S. federal taxable income for the third quarter of 2018.

Deferred income tax expense for the third quarter of 2018 was $5.9 million compared to a deferred income tax expense of nil in the prior year quarter. The increase in deferred income tax expense compared to the prior year quarter is due primarily to the updated U.S. bonus depreciation provisions which allow for a 100% deduction of hydrovacs and other eligible capital put into service in the U.S.

Net Profit

Net profit for the third quarter of 2018 was $25.7 million, a $9.5 million increase compared to net profit of $16.2 million in the prior year comparative quarter. The increase in net profit is due to strong revenue growth, improved gross profit margins and improved asset utilization, offset by higher depreciation, income tax and general and administrative expenses, all of which are fully described previously in this MD&A.

Other Comprehensive Income

Total other comprehensive income (loss) ("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 loss of $2.5 million in the third quarter of 2018, compared to a loss in other comprehensive income of $6.1 million in the third quarter of 2017. The unrealized loss for the third quarter of 2018 is due to the U.S. dollar weakening relative to the Canadian dollar throughout the third quarter of 2018. 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 third quarter of 2018 was $22.0 million, compared to the prior year comparative quarter of $16.6 million. Cash flow from operating activities was impacted by higher net profit after the impact of certain non-cash adjustments, offset by an increase in working capital requirements. See the interim condensed consolidated statement of cash flows contained within Badger's interim condensed consolidated financial statements for additional details. The increase in working capital requirements is due to ongoing organic revenue growth combined with the impact of the seasonal improvement in Badger's business in the third quarter, both of which result in a normal course increase in working capital requirements. Cash flow from operating activities before non-cash working capital and other adjustments was $50.2 million in the third quarter of 2018 compared to $38.0 million in the prior year comparative quarter. The increase in cash flow from operating activities before non-cash working capital and other adjustments is due primarily to higher Adjusted EBITDA in the current year quarter.

Working capital is a normal course component of Badger's business. Changes in working capital levels may result from increasing or decreasing revenue, the seasonality in Badger's operations, the timing of the collection of receivables and the payment of payables, the timing of capital expenditures, and the impact of fluctuations in foreign currency exchange rates. Badger had working capital of $137.9 million at September 30, 2018, compared to $113.9 million at December 31, 2017. Working capital as at September 30, 2018 was higher than December 31, 2017, as an increase in trade and other receivables and the impact of a stronger U.S. dollar on U.S. denominated receivables, was only partially offset by higher trade and other payables and lower cash and

cash equivalents. The reduction in cash and cash equivalents compared to December 31, 2017 is primarily due to capital expenditures related to the manufacture of hydrovacs for the nine months ended September 30, 2018. See "Capital Expenditures" for additional details.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totaled $157.4 million at September 30, 2018, $45.4 million higher than the balance at December 31, 2017 of $112.0 million. The increase in trade and other receivables is a result of revenue growth experienced in the third quarter of 2018 which is typically Badger's strongest revenue quarter due to summer construction activity levels. Accounts receivable was also impacted by a stronger U.S. dollar on U.S. denominated receivables and the classification of Badger's income tax receivable related to prior years transfer pricing activities as a current asset in 2018. Included in total trade and other receivables at September 30, 2018 was $5.3 million in accrued revenue, compared to $1.8 million at December 31, 2017. The increase in accrued revenue is due to the growth in the overall business and an increase in the number of large scale customer projects which have pre-defined invoicing terms and conditions. Accrued revenue is recognized only when it meets the requirements of Badger's revenue recognition policy.

As at September 30, 2018, 85% of Badger's trade receivables were aged 90 days or less, compared with the ageing at September 30, 2017 of 89% and December 31, 2017 of 83% aged 90 days or less.

The Company uses 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 revolving 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 use its credit facilities as well as declare dividends. Badger does not maintain a credit rating.

Capital Resources

Investing

Badger invested $22.3 million in property, plant and equipment for the three months ended September 30, 2018, compared to $21.2 million in the prior year comparative quarter. The majority of capital expenditures for the third quarter of 2018 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 third quarter ended 2018, Badger completed 51 hydrovacs, compared to 47 hydrovacs in the third quarter of 2017.

Capital Expenditures

($ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Hydrovac completed units and work-in-progress	**21,153**	18,539	**66,098**	54,273
Other vehicles and trailers	**851**	1,660	**4,712**	5,947
Buildings	**6**	791	**28**	817
Other	**243**	238	**711**	838
Total capital expenditures	**22,253**	21,228	**71,549**	61,875

Finished hydrovacs, and the related total cost included in the summary of capital expenditures, includes the cost to manufacture a hydrovac plus additional non-refundable sales taxes, excise taxes and costs to place the unit into service, such as shipping. Certain of these costs are dependent on the region where the hydrovac is put into service.

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. For a summary of the historical average annual hydrovac manufacturing cost, refer to Badger's 2017 annual MD&A.

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

Common Business Platform Project

As previously disclosed, Badger has initiated a process to upgrade and standardize its legacy information technology systems into a single enterprise resource planning ERP system, referred to as the Common Business Platform. In conjunction with Badger's ongoing business process standardization initiatives, the Common Business Platform will enhance Badger's operational and financial reporting processes, providing the business tools and information technology foundation to facilitate future growth. The Common Business Platform will also allow for the implementation and integration of new technologies, ensuring the consistency of operations across all aspects of the Company.

During the third quarter, activities related to the Common Business Platform were primarily focused on business process redesign and the related configuration and integration into the ERP platform. Total expenditures incurred related to the Common Business Platform for the three months ended September 30, 2018 were $2.1 million with $0.1 million included in general and administrative expenses and $2.0 million capitalized and categorized as a component of intangible assets. For the nine months ended September 30, 2018, total costs incurred were $2.3 million, with $0.1 million included in general and administrative expenses and $2.2 million capitalized and categorized as a component of intangible assets.

The Common Business Platform commenced during the second quarter of 2018, Badger anticipates that the total project will be implemented over a two-year period with the first components being available for use in the back half of 2019. The Common Business Platform has an initial estimated total cost of $20 to $25 million, of which approximately 85% is anticipated to be capital (intangible asset) and 15% anticipated to be included in operating costs. Total expenditures associated with the project are expected to be incurred as follows: 25% in 2018; 60% in 2019 and 15% in 2020. Due to the timing and nature of the allocation of the total expenditures between capital and operating expenses it is not practical to provide an estimated allocation of the breakdown of expenditures between operating expenses and capital by year.

North American Trade Negotiations

On September 30, 2018, Canada, the United States and Mexico announced the completion of negotiations on the United States-Mexico-Canada Agreement ("USMCA"). Subject to finalization and ratification of the USMCA, Badger does not believe that the proposed USMCA in its current form would have a material impact on its operations.

Contractual Obligations

Refer to the Company's unaudited interim condensed consolidated financial statements for disclosure related to contractual obligations. The company anticipates using its cash and cash equivalents, in addition to financial capacity available under its syndicated revolving credit facility, to fund its contractual obligations.

Normal Course Issuer Bid

During the three months ended September 30, 2018, the Company did not purchase any of its common shares under its previously disclosed normal course issuer bid ("NCIB"). Under the NCIB, the Company may acquire up to 2,000,000 common shares on or before May 14, 2019. Any common shares purchased pursuant to the NCIB will be cancelled.

Financing

Syndicated revolving credit facility

Badger has a syndicated revolving credit facility (the "credit facility") with a syndicate of three lenders. The credit facility, which is $147.1 million in aggregate Canadian dollars, consists of a $50.0 million Canadian tranche and a US$75.0 million ($97.1 million Canadian dollar equivalent as at September 30, 2018) 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 ("BA")/London interbank offered rate ("LIBOR") 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 BA/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 September 30, 2018, the Company had issued letters of credit of $4.3 million (December 31, 2017 - $3.3 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 September 30, 2018, the Company had available $142.8 million (December 31, 2017 - $140.8 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 ($97.1 million Canadian equivalent at September 30, 2018) 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	**September 30, 2018**	December 31, 2017	Threshold
Funded Debt to Compliance EBITDA [(1)(2)]	**0.7:1**	0.7:1	2.75:1 max
Interest Coverage Ratio [(1)(3)]	**28.4:1**	22.3:1	3.00:1 min
Tangible Net Worth [(1)]	**$317.9 million**	$290.1 million	$178.2 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 September 30, 2018 calculated as $91.4 million in Funded Debt divided by $139.2 million of Compliance EBITDA and for December 31, 2017 calculated as $87.4 million in Funded Debt divided by $122.6 million of Compliance EBITDA.

(3) The Interest Coverage Ratio is calculated as Compliance EBITDA divided by interest expense. For the twelve months year ended September 30, 2018 calculated as $139.2 million in Compliance EBITDA divided by $4.9 million in interest expense and for the twelve months ended December 31, 2017 calculated as $122.6 million in Compliance EBITDA divided by $5.5 million in interest expense. Interest Expense is calculated in accordance with IFRS on a trailing 12 month basis.

Throughout the third quarter of 2018, and as at September 30, 2018, 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 annual audited consolidated financial statements and the Company's 2017 Annual Information Form.

Share Capital

As at November 12, 2018, September 30, 2018, and December 31, 2017, 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.

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, income taxes receivable, 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 is disclosed in the 2018 third quarter interim condensed 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, BA or the 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 utilize 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)	**2018**			2017 [1]				2016 [1]
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**168,712**	147,550	120,571	132,062	140,903	123,696	100,147	110,896
Net profit	**25,689**	10,586	8,074	31,244	16,192	14,718	3,698	7,349
Net profit per share, basic and diluted ($)	**0.69**	0.29	0.22	0.84	0.44	0.40	0.10	0.20
Dividends paid	**5,009**	4,749	4,229	4,229	3,858	3,673	3,673	3,673
Dividends per share, basic and diluted ($)	**0.135**	0.128	0.114	0.114	0.104	0.099	0.099	0.099

[1] Quarterly revenues for 2017 have been updated to reflect the impact of the adoption of IFRS 15. See "Changes in Accounting Policies" for additional details on the impact of the adoption of IFRS 15. Quarterly revenue for 2016 reflects historically reported revenues.

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 U.S., 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 expenses and Adjusted EBITDA;
- Normal course seasonality within Badger's business as a result of the seasonal upswing in construction activity, the impact of which will typically result in higher activity levels in the second, third and fourth quarters, with reduced activity levels in the first quarter due to the normal course slow-down in certain northern markets during the winter construction season;
- Additional investments related to the manufacture of hydrovac units and funding an increase in working capital associated with the underlying growth in the business;
- Finalization of income tax benefits associated with transfer pricing activities for the 2009 through 2013 taxation years in the second quarter of 2018; and
- Updated U.S. income tax legislation, effective December 22, 2017, impacted Badger's fourth quarter of 2017 deferred income taxes.

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	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total	**35,500**	30,300	27,300	31,300	34,125	29,141	24,747	27,023

Fleet Summary

Number of Hydrovacs	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Canada	**356**	363	368	362	361	353	343	356
U.S.	**851**	827	786	747	720	703	688	668
Total	**1,207**	1,190	1,154	1,109	1,081	1,056	1,031	1,024

Marketing and Franchise Agreements

Number of Marketing and Franchise Agreements	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Canada	**9**	9[5]	10	10	10[3]	11[1]	12	12
U.S.	**4**	4	4[4]	3	3	3[2]	4	4
Total	**13**	13	14	13	13	14	16	16

[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.
[4] A new U.S. based franchise agreement was executed during the first quarter of 2018.
[5] Badger purchased the assets of an operating partner to facilitate the operating partner's exit from the business.

Foreign Exchange Rates

1 USD:CAD	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Quarterly average	**1.3070**	1.2911	1.2648	1.2713	1.2528	1.3457	1.3229	1.3340
Period end	**1.2945**	1.3168	1.2894	1.2545	1.2480	1.2977	1.3323	1.3426

The average foreign exchange rate of 1 U.S. dollar to the Canadian dollar for the three months ended September 30, 2018 was 1.3070, and for the three months ended September 30, 2017 was 1.2528.

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.

Accounting Policies

The Company's significant accounting policies are set out in Note 4 of the 2017 audited annual consolidated financial statements.

Critical Accounting Estimates and Judgements

In the preparation of the Company's unaudited interim consolidated financial statements, management has made judgments, estimates and assumptions that affect the recorded amounts of revenues, expenses, assets, liabilities and the disclosure of commitments, contingencies and guarantees. Estimates and judgments used are based on management's experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the condensed consolidated financial statements are prepared. Actual results could differ from these estimates. The most significant estimates and judgments used in the preparation of the Company's unaudited interim condensed consolidated financial statements have been set out in Note 3 of the Company's 2017 audited annual consolidated financial statements.

Changes in Key Financial Metrics and Classification of Revenue Groupings

The Company has determined that effective with its 2018 fourth quarter and annual financial statements, MD&A and other applicable disclosure documents it will be updating its calculation and presentation of RPT and the presentation and the classification of certain revenue groupings. The current RPT calculation uses internal, non-disclosed information, as such, it is not possible for a user of the Company's disclosure documents to calculate the measure themselves. The revised calculation and presentation of RPT will be derived from information available directly from the Company's financial statements and operational disclosures, providing users greater transparency and the ability to calculate this measure.

In addition to the change in the calculation of RPT, the Company will make certain changes with respect to the presentation of revenue. Currently, revenues are grouped as: Hydrovac Service Revenue; Other Service Revenue; and Truck Placement Fees. Other Service Revenue includes hydrovac related revenues such as third party, disposition and other hydrovac related ancillary charges. The updated categorization will move all hydrovac related revenues into a single category, Hydrovac Revenue. The Company's updated classifications will include Hydrovac Revenue and Other Revenue. The revenue category Truck Placement Fees will be included in Other Revenue. There will be no impact on the Company's consolidated revenue, gross profits, net income or Adjusted EBITDA as a result of the change in revenue categorization.

The Company will begin disclosing the revised calculation of RPT and the updated revenue categorizations effective with its 2018 fourth quarter and annual disclosures. RPT and revenue categorizations previously reported throughout 2018 will be reclassified to conform to the updated calculation/presentation with the previously reported information for 2018 updated and disclosed with the Company's 2018 fourth quarter and annual disclosure documents.

Changes in Accounting Policies

IFRS 15 – *Revenue from Contracts with Customers*

Badger has adopted IFRS 15 effective January 1, 2018. Certain comparative period financial information for the three and nine months ended September 30, 2017, has been reclassified to conform to the current period presentation as a result of the adoption of IFRS 15, a summary of which is detailed below.

There is no change to Badger's Adjusted EBITDA, net profit, cash flow from operations, or RPT as a result of the adoption of IFRS 15.

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.

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.

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

Following the assessment of 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 are 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 has assessed 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 are 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.

The following tables summarize the IFRS 15 changes for the three and nine months ended September 30, 2017 and the year ended December 31, 2017:

Three Months Ended September 30, 2017

	Revenue	Direct Costs	Gross Profit	Gross Margin
Historical - reported under IAS 18	141,285	96,035	45,250	32.0%
Operating partner adjustments				
Less: Revenue reported under IAS 18 (1)	(14,121)		(14,121)	
Less: Payments to operating partners under IAS 18		(8,227)	8,227	
Add: Net revenue under IFRS 15 (2)	5,894		5,894	
Third party adjustments				
Less: Revenue reported under IAS 18 (3)	(2,156)		(2,156)	
Add: Revenue under IFRS 15 (4)	10,001		10,001	
Add: Direct costs under IFRS 15 (5)		7,845	(7,845)	
Reported under IFRS 15	**140,903**	**95,653**	**45,250**	**32.1%**
Net impact of IFRS 15 adoption	(382)	(382)	-	0.1%

Nine Months Ended September 30, 2017

	Revenue	Direct Costs	Gross Profit	Gross Margin
Historical - reported under IAS 18	366,447	260,944	105,503	28.8%
Operating partner adjustments				
Less: Revenue reported under IAS 18 (1)	(38,655)		(38,655)	
Less: Payments to operating partners under IAS 18		(22,494)	22,494	
Add: Net revenue under IFRS 15 (2)	16,161		16,161	
Third party adjustments				
Less: Revenue reported under IAS 18 (3)	(4,830)		(4,830)	
Add: Revenue under IFRS 15 (4)	25,623		25,623	
Add: Direct costs under IFRS 15 (5)		20,793	(20,793)	
Reported under IFRS 15	**364,746**	**259,243**	**105,503**	**28.9%**
Net impact of IFRS 15 adoption	(1,701)	(1,701)	-	0.1%

Year Ended December 31, 2017

	Revenue	Direct Costs	Gross Profit	Gross Margin
Historical - reported under IAS 18	499,236	352,644	146,592	29.4%
Operating partner adjustments				
Less: Revenue reported under IAS 18 (1)	(52,620)		(52,620)	
Less: Payments to operating partners under IAS 18 (6)		(30,625)	30,625	
Add: Net revenue under IFRS 15 (2)	21,995		21,995	
Third party adjustments				
Less: Revenue reported under IAS 18 (3)	(7,143)		(7,143)	
Add: Revenue under IFRS 15 (4)	35,340		35,340	
Add: Direct costs under IFRS 15 (5)		28,197	(28,197)	
Reported under IFRS 15	**496,808**	**350,216**	**146,592**	**29.5%**
Net impact of IFRS 15 adoption	(2,428)	(2,428)	-	0.1%

(1) Operating partner revenue was reported gross as a component of revenue on the Consolidated Statement of Comprehensive Income under IAS 18.

(2) As a result of the adoption of IFRS 15, revenue from operating partners is recorded net of payments to operating partners as a component of consolidated revenue on the Consolidated Statement of Comprehensive Income.

(3) Revenue from third parties was reported net of direct costs as a component of revenue on the Consolidated Statement of Comprehensive income under IAS 18.

(4) As a result of the adoption of IFRS 15, revenue from third party transactions is recorded gross as a component of revenue on the Consolidated Statement of Comprehensive Income.

(5) As a result of the adoption of IFRS 15, direct costs from third party transactions is recorded gross as a component of direct costs on the Consolidated Statement of Comprehensive Income.

(6) Payments to operating partners were reported gross as a component of direct costs on the Consolidated Statement of Comprehensive Income under IAS 18. Payments to operating partners of $33.6 million as disclosed in Note 16 of the 2017 audited annual consolidated financial statements included $30.6 million paid to operating partners, with the remaining balance related to fees paid to independent operators which will continue to be presented gross as a component of direct costs. Independent operators do not have a franchise agreement and the provision of services for independent operators is controlled by Badger Corporate.

IFRS 15 Post Adoption Supplemental Comparative Information

Year Ended December 31

	IFRS 15 Post Adoption			Historical		
	2017	2016	2015	2017	2016	2015
Revenues	496,808	397,182	386,171	499,236	404,202	404,620
Direct costs	350,216	277,277	264,656	352,644	284,297	283,105
Gross profit	146,592	119,905	121,515	146,592	119,905	121,515
Gross profit margin	29.5%	30.2%	31.5%	29.4%	29.7%	30.0%

Quarterly - Year Ended December 31, 2017

	IFRS 15 Post Adoption				Historical			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	132,062	140,903	123,696	100,147	132,789	141,285	123,351	101,811
Direct costs	90,972	95,653	87,084	76,507	91,699	96,035	86,739	78,171
Gross profit	41,090	45,250	36,612	23,640	41,090	45,250	36,612	23,640
Gross profit margin	31.1%	32.1%	29.6%	23.6%	30.9%	32.0%	29.7%	23.2%

See the Company's 2018 third quarter unaudited interim condensed consolidated financial statements for additional background and details related to the adoption of IFRS 15.

IFRS 9 – *Financial Instruments*

Badger has adopted IFRS 9 effective January 1, 2018 on a retrospective basis. Badger's prior year comparative information has not been adjusted with respect to the adoption of IFRS 9's classification and measurement requirements as the adoption of IFRS 9 did not result in material changes to the determination of Badger's anticipated credit losses and associated allowance for doubtful accounts.

The International Accounting Standards Board issued IFRS 9 – *Financial Instruments* 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 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, did not result in a material

change in the determination of Badger's anticipated credit losses and associated allowance for doubtful accounts. 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, in future reporting periods.

See the Company's 2018 third quarter unaudited interim condensed consolidated financial statements for additional background and details related to the adoption of IFRS 9.

Accounting Pronouncements

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 has 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.

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 September 30,**		**Nine months ended September 30,**	
Adjusted EBITDA	**2018**	2017	**2018**	2017
Net profit	**25,689**	16,192	**44,349**	34,608
Add:				
Depreciation of property, plant and equipment	**13,138**	11,240	**36,958**	33,515
Share-based compensation expense	**320**	797	**6,372**	381
Loss on sale of property, plant and equipment	**434**	94	**944**	55
Finance cost	**1,117**	1,692	**3,636**	4,269
Foreign exchange loss	**890**	313	**252**	695
Income tax expense	**9,357**	8,553	**21,338**	17,319
Adjusted EBITDA	**50,945**	38,881	**113,849**	90,842

Adjusted EBITDA can also be calculated as follows:

($ thousands)	**Three months ended September 30,**		**Nine months ended September 30,**	
Adjusted EBITDA	**2018**	2017	**2018**	**2017**
Revenue	**168,712**	140,903	**436,833**	364,746
Less:				
Direct costs	**110,519**	95,653	**301,743**	259,243
General and administrative expense	**7,248**	6,369	**21,241**	14,661
Adjusted EBITDA	**50,945**	38,881	**113,849**	90,842

"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 September 30,		Nine months ended September 30,	
Adjusted EBITDA margin	**2018**	2017	**2018**	2017
Adjusted EBITDA	**50,945**	38,881	**113,849**	90,842
Revenue	**168,712**	140,903	**436,833**	364,746
Adjusted EBITDA margin	**30.2%**	27.6%	**26.1%**	24.9%

"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 September 30,	
Compliance EBITDA	**2018**	2017
Net profit	**75,596**	41,955
Add:		
Depreciation of property, plant and equipment	**48,900**	44,483
Finance cost	**4,889**	5,279
Tax expense	**9,791**	24,175
Compliance EBITDA	**139,176**	115,892

"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)		
Funded Debt	**September 30, 2018**	December 31, 2017
Long-term debt	**97,088**	94,088
Current portion of long-term debt	**-**	-
Total debt	**97,088**	94,088
Add: issued letters of credit	**4,289**	3,325
Less: cash on hand [1]	**(10,000)**	(10,000)
Funded Debt	**91,377**	87,413

[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, 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) **Tangible Net Worth**	**September 30, 2018**	December 31, 2017
Shareholders' equity	**355,369**	318,494
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	**(25,661)**	(18,888)
Less: intangible assets and goodwill	**(11,846)**	(9,479)
Tangible Net Worth	**317,862**	290,127

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.

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. Badger uses the criteria established in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of Badger's internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes to Badger's internal control over financial reporting in the third quarter of 2018.

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.

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.

Risk Factors

A comprehensive listing of the Company's risk factors are set out in the Company's 2017 Annual Information Form under the heading "Risk Factors". This section does not describe all risks applicable to the Company, its industry or its business, and is intended only as a summary of certain material risks. If any of such risk or uncertainties actually occurs, the Company's business, financial condition or operating results could be harmed substantially and could differ materially from the plans and other forward-looking statements discussed in this MD&A.

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, benefits and costs associated with the Common Business 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;
- The benefits, if any, that Badger's operational scale creates related to financial and operating performance;
- Badger anticipates that its Adjusted EBITDA for 2018 will be in the range of $150 to $160 million and for 2019 will be in the range of $170 to $190 million;
- Badger anticipates that the number of new hydrovac builds for 2018 will be approximately 160 to 200 units and for 2019 will be approximately 190 to 220 units, and that hydrovac retirements for 2018 will be in the range of 60 to 80 units and for 2019 will be in the range of 40 to 60 units;
- Badger anticipates that gross profit margin and RPT for 2019 will be similar to 2018;
- Badger anticipates that recent changes to U.S. income tax legislation will positively impact current income taxes;
- The timing, benefits and costs associated with Badger's Common Business Platform project;
- The ability and benefits of Badger to purchase and subsequently cancel up to 2,000,000 of its common shares under its NCIB;
- The timing, finalization and potential impact, if any, of the United State-Mexico-Canada agreement;
- The timing and potential benefits, if any, of customer demand related to hurricane Florence, hurricane Michael and maintenance work on the natural gas distribution network in the U.S. Northeast;
- Badger's estimate of general and administrative expenses for 2018 and that the long-term target for general and administrative expenses remains at 4% of revenue on an annualized basis; 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;
- Badger will obtain all labour, parts and supplies necessary to complete the planned hydrovac build at the costs expected; and
- Badger will be able to complete and implement the Common Business Platform project within the expected time frame and in accordance with the expected budget.

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; Badger's ability to complete and implement the Common Business Platform project, 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.