



**Management's Discussion and Analysis  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**March 12, 2019**

## **Management's Discussion and Analysis**

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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, 2018 and 2017. Readers should also refer to all previous public filings, including the Company's Annual Information Form for the year ended December 31, 2018, which may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The audited consolidated financial statements of the Company were prepared by and are the responsibility of Badger's management. The Company's audited consolidated financial statements as at and for the years ended December 31, 2018 and 2017, were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

This MD&A is dated and has been prepared taking into consideration information available to March 12, 2019. 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**

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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 work 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 primarily through Badger corporate operations.

## Financial Highlights

<i>(\$ thousands, except revenue per truck per month ("RPT"), per share and share information)</i>	Year ended December 31,	
	2018	2017 <sup>(4)</sup>
Revenue:		
Hydrovac service revenue	587,206	469,082
Other revenue	28,236	27,726
Total revenue	615,442	496,808
RPT - Consolidated (mixed currency) <sup>(1)(2)</sup>	34,347	30,266
RPT- U.S. (U.S. dollars) <sup>(1)(2)</sup>	36,799	32,149
RPT- Canada (Canadian dollars) <sup>(1)(2)</sup>	28,834	26,552
Adjusted EBITDA <sup>(1)</sup>	161,707	125,381
Adjusted EBITDA per share, basic and diluted <sup>(1)(3)</sup>	\$4.36	\$3.38
Adjusted EBITDA margin <sup>(1)</sup>	26.3%	25.2%
Profit before income tax	97,634	71,625
Net profit	67,817	65,852
Net profit per share, basic and diluted <sup>(3)</sup>	\$1.83	\$1.77
Cash flow from operating activities before working capital adjustments	162,494	123,683
Cash flow from operating activities before working capital adjustments per share, basic and diluted <sup>(3)</sup>	\$4.38	\$3.33
Dividends paid	18,996	15,433
Weighted average common shares outstanding <sup>(3)(5)</sup>	37,083,766	37,100,681

(1) See "Non-IFRS Financial Measures" and "Key Financial Metrics and Other Operational Metrics" for additional detail on the definition and calculation of Adjusted EBITDA, Adjusted EBITDA margin, and RPT.

(2) See "Changes in Key Financial Metrics and Classification of Revenue Groupings" for additional details on the calculation and disclosure of RPT.

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

(4) Certain comparative revenue amounts for the year ended December 31, 2017 have been reclassified to conform to the current year 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.

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

## Comparable IFRS Financial Information <sup>(1)</sup>

<i>(\$ thousands, except per share information)</i>	Year ended December 31,	
	2018	2017
Cash flow from operating activities	134,382	87,400
Cash flow from operating activities per share, basic and diluted <sup>(2)</sup>	\$3.62	\$2.36

(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 Highlights

- Badger generated Adjusted EBITDA of \$161.7 million for the year ended 2018, an increase of 29% compared to \$125.4 million in the prior year. 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 year ended 2018 of \$615.4 million was \$118.6 million, or 24%, higher compared to \$496.8 million in the prior year comparative.
  - In the United States (“U.S.”), revenue for the year ended 2018 was US\$358.6 million, US\$83.6 million or 30%, higher than the prior year comparative of US\$275.0 million. In Canada, revenue for the year ended 2018 of \$149.5 million, \$9.8 million, or 7%, higher than the prior year comparative with revenue of \$139.7 million. The increase in revenue, particularly in the U.S. operations, is due primarily to increased customer demand as a result of the ongoing adoption of hydro excavation as the preferred method for non-destructive excavation.
  - Revenue for the year ended 2018 includes \$22.5 million in emergency response work related to hurricanes Florence and Michael and the California wildfires, the impact of which was partially offset by the fourth quarter bad debt provision of \$5.3 million (\$9.5 million for the year ended 2018). The majority of the bad debt provision recognized in the fourth quarter relates to a Chapter 11 bankruptcy filing by a large utility customer for work performed related to the California wildfires.
- Revenue per truck per month (“RPT”) for the year ended 2018 was \$34,347 on a consolidated basis, 13% higher than the prior year of \$30,266. RPT in the U.S. operations was US\$36,799 and for the Canadian operations was \$28,834 compared to US\$32,149 and \$26,552 in the prior year, respectively. The year-over-year improvements in RPT were driven by revenue growth and improved asset utilization by leveraging Badger’s extensive branch network.
  - RPT in Badger’s U.S. operations was positively impacted by emergency response work completed throughout the third and fourth quarters of 2018 related to hurricanes Florence and Michael and the wildfires in California.
  - See “Changes in Key Financial Metrics and Classification of Revenue Groupings” for additional details on the calculation and disclosure of RPT.
- Gross profit margin for the year ended 2018 was 31.1%, a 160 basis point or 5% increase over the prior year comparative of 29.5%. Adjusted EBITDA margin for the year ended 2018 of 26.3%, a 110 basis point or 4% increase over the prior year margin of 25.2%.
  - Margins in 2018 benefitted from a reduction in direct operating costs, modest improvements in pricing and improved asset utilization, which more than offset the impact of higher bad debts.
- During 2018, Badger placed 112 net hydrovacs into service, consisting of 191 new and 79 retired. As at December 31, 2018, Badger had 1,221 hydrovacs in operation compared to 1,109 as at December 31, 2017. See “Capital Resources” for additional details.
- Net profit for the year ended 2018 was \$67.8 million or \$1.83 per share compared to \$65.9 million or \$1.77 per share in the prior year. Net profit was positively impacted by higher Adjusted EBITDA, offset by higher income taxes due to improved financial results and the absence of a \$17.2 million one-time deferred income tax recovery recognized in 2017 due to changes in U.S. income tax legislation enacted in 2017, and modestly higher depreciation expense as a result of the growth in Badger’s fleet.

- Badger continues to maintain a strong balance sheet. As at December 31, 2018, there were no amounts drawn on its syndicated revolving credit facility. Total debt less cash and cash equivalents were \$54.0 million at December 31, 2018, with a corresponding total debt less cash and cash equivalents to Compliance EBITDA ratio of 0.4X.
- During 2018, pursuant to the Company's normal course issuer bid ("NCIB"), Badger purchased 628,614 of its common shares at a weighted average price per share of \$31.96. In addition, for the period January 1, 2019 through March 12, 2019, the Company purchased and cancelled an additional 633,454 common shares at a weighted average price per share of \$33.50. See "Normal Course Issuer Bid" for additional details.

## **2019 Financial Outlook**

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Based on existing and forecasted activity levels, Badger anticipates that its 2019 Adjusted EBITDA will 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, which is consistent with the 2019 financial outlook provided in the third quarter of 2018.

Continued growth in Badger's end use markets and geographic areas has resulted in an increase in revenue and improved fleet utilization as evidenced by improved financial results and a higher realized RPT in 2018. Badger anticipates continued growth in revenues in 2019 with a gross profit margin for 2019 to be similar to 2018. RPT for 2019 is anticipated to be modestly lower than in 2018, particularly in the U.S. operations, as \$22.5 million in emergency response work completed during the third and fourth quarter of 2018 resulted in a one-time increase to Badger's 2018 RPT. Emergency response work related to large scale natural disasters is not possible to predict and may not recur in 2019.

Badger's 2019 financial outlook assumes that Badger will continue to realize 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 2019. Oil and gas activity levels are anticipated to be consistent with 2018 levels within Badger's U.S. operations but weaker in Canada in 2019 compared to 2018. 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 certain oil and gas focused regions, continues to be challenging.

Badger's 2018 Adjusted EBITDA of \$161.7 million was modestly higher than the 2018 financial outlook provided in the third quarter of 2018 of \$150 to \$160 million. The improvement compared to the previously provided financial outlook was due to stronger than anticipated customer activity levels throughout the fourth quarter, due in part, to the impact of emergency response work related to hurricane Michael and the California wildfires. During 2018, Badger placed 191 new hydrovacs into service while retiring 79 units, both of which were consistent with the outlook previously provided by Badger.

## Results of Operations for the year ended December 31, 2018

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### Revenues

Revenues of \$615.4 million for the year ended 2018 were 24% higher than the \$496.8 million generated during the prior year. Throughout 2018, Badger realized improved demand for hydrovac and related services, particularly in its U.S. markets. The improvements in revenue are attributable to the following:

- Revenue in the U.S. operations increased by 30% to US\$358.6 million for the year ended 2018 compared to US\$275.0 million in the prior year. Revenue growth throughout 2018 was attributable to continued growth from both new and existing customers, emergency response work related to hurricanes and wildfires, and the benefit of a recovery in certain oil and gas producing regions. Improvements in oil and gas producing regions were more pronounced in the first half of 2018 with reduced activity levels experience in the second half of 2018 due largely to general volatility in the market price for oil and gas.
  - Revenue for the year ended 2018 includes \$22.5 million in emergency response work related to hurricanes Florence and Michael and the California wildfires, the impact of which was partially offset by the fourth quarter bad debt provision of \$5.3 million (\$9.5 million for the year ended 2018). The majority of the bad debt provision recognized in the fourth quarter relates to a Chapter 11 bankruptcy filing by a large utility customer for work performed related to the California wildfires.
- Average hydrovac rates in the U.S. operations were consistent to modestly higher than the prior year across the majority of markets. U.S. revenue converted to Canadian dollars was \$465.9 million in 2018, compared to \$357.1 million in the prior year comparative, a 30% increase. The weighted average foreign currency rate used in the translation of U.S. dollar revenues to Canadian dollars for the year ended 2018 was CDN\$1.30 to US\$1.00, the same as in the prior year.
- Revenue in the Canadian operations of \$149.5 million was \$9.8 million, or 7%, higher than the prior year with revenue of \$139.7 million, due to modest improvements in general customer demand related to infrastructure, construction and certain oil and gas markets. Improvements in certain oil and gas markets, similar to the U.S. operations, were more pronounced in the first half of 2018 with lower activity levels experienced in the second half of 2018, due to the volatility in oil and gas markets noted earlier. Revenues in Canada were also impacted by a lack of available trained operators during the second half of 2018. Availability of trained operators improved throughout the fourth quarter of 2018, as such, Badger does not anticipate labour challenges in Canada having a significant impact on its 2019 financial results.
- Average hydrovac rates in the Canadian operations were consistent to modestly higher than the prior year across the majority of markets.
- Revenue growth in both the U.S. and Canadian operations was limited in certain regions due to the availability of trained operators.
- Badger believes that the increase in revenues for 2018 compared to the prior year, 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 recognized by Badger's existing and new customer base.
- Other services revenue for 2018 was \$28.2 million, \$0.5 million higher than the prior year of \$27.7 million due to modest improvements in customer demand related to Badger's non-hydrovac related service lines such as sewer flushing and industrial tank cleaning.

RPT for the year ended 2018 was \$34,347 on a consolidated basis compared to \$30,266 in the prior year. RPT in the U.S. was US\$36,799 and in Canada was \$28,834 compared to US\$32,149 and \$26,552 in the prior year, respectively. The improvement in RPT in the U.S. and Canada was due primarily to a combination of higher overall revenues as a result of improved asset utilization and customer growth as discussed above. In addition, RPT in the U.S. benefitted from emergency response work related to hurricanes Florence and Michael and the California wildfires.

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.

As disclosed in the third quarter of 2018, effective with the Company's 2018 fourth quarter and annual disclosure documents, Badger has revised its calculation of RPT and the classification of certain revenue groupings, due in part to the adoption of IFRS 15, while also improving the transparency and comparability of various key financial measures. See "Changes in Key Financial Metrics and Classification of Revenue Groupings" and "Changes in Accounting Policies" for additional details.

For additional information on RPT, refer to the definition under the "Key Financial Metrics and Other Operational Metrics" section.

### **Direct Costs**

Direct costs for the year ended 2018 were \$424.2 million compared to \$350.2 million in the prior year. 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 year ended 2018 of 68.9%, were 160 basis points or 2% lower than the prior year of 70.5%. Direct costs in 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 as a result of a combination of the management of variable labour costs, improved asset utilization and growth of the business in lower labour cost regions, all of which more than offset the impact of general wage inflation. Offsetting the improvements in labour related costs was an increase in bad debt expense as a result of two specific customer collection issues which are fully described below. As a percentage of revenue, costs related to fuel, insurance and repairs and maintenance expenses were consistent with the prior year. Badger continues to focus on 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 human resources, recruitment, business development, fleet, information technology and health and safety activities. Investments made in these areas of the business have resulted in increased scale within each of these functions and are essential to support increased activity levels.

Bad debt expense is included in direct costs and for the year ended 2018 was \$9.5 million compared to \$1.9 million in the prior year. The increase in bad debt expense is primarily the result of a Chapter 11 bankruptcy filing by a large utility customer in the United States and a collection issue associated with a single customer on a large scale, multi-location project involving multiple subcontractors as disclosed in Badger's 2018 third quarter MD&A. Excluding the impact of the collection issues associated with these two specific customers, bad debt expense was consistent with the prior year.

Effective January 1, 2018, Badger adopted IFRS 9 – *Financial Instruments* which impacts 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 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 year ended 2018 was \$191.3 million compared to \$146.6 million in the prior year. Gross profit margin was 31.1% for the year ended 2018, compared to 29.5% in 2017. Gross profit margin in the U.S. operations was 32.2% for the year ended 2018 compared to 30.4% for the year ended 2017, with gross profit margin in the Canadian operations of 27.4% for the year ended 2018 compared to 27.2% in the year ended 2017. Improvements in gross profit in the U.S. and Canada, particularly in the U.S. operations, were driven by a reduction in direct operating costs, primarily due to improved labour efficiency as discussed in the analysis of direct costs, combined with changes in sales mix in certain regions, and consistent to modestly higher average hydrovac rates, which more than offset the increase in bad debt expense as previously noted.

Gross profit margin in both the U.S. and Canada, with the largest impact in the U.S., benefitted from the improvements in RPT noted earlier. A higher RPT may result in higher average gross profit margins since lower direct fixed costs as a percentage of revenue, may be required to support the incremental revenue in the business.

### **General and Administrative Expenses**

General and administrative expenses for the year ended 2018 were \$29.6 million compared to \$21.2 million in the prior year. As a percentage of revenue, general and administrative expenses were 4.8% in 2018 compared to 4.3% in 2017. The increase in general and administrative expenses as a percentage of revenue, and on a total dollar basis, is due 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. 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 year ended 2018 is \$0.2 million associated with upgrading and standardizing legacy information technology systems into a single enterprise resource planning (“ERP”) system, see (the “Common Business Platform”) for additional details.

Badger’s target for general and administrative expenses, excluding costs associated with implementing the Common Business Platform, on a long-term annualized basis remains at 4.0% of revenue. As previously disclosed, Badger anticipated that general and administrative expenses would trend above 4.0% on an annualized basis for fiscal 2018. Badger anticipates general and administrative expenses as a percentage of revenue for 2019 to be consistent with 2018 levels. Badger’s general and administrative expense run rate for 2018 and anticipated run rate for 2019 are above the long-term annualized target due to investments in administrative resources made throughout fiscal 2017, 2018 and anticipated investments to be made throughout fiscal 2019. The investments are required to provide Badger with the scale within its operational and administrative management functions to support current and future growth.

### **Depreciation of Property, Plant and Equipment**

Depreciation of property, plant and equipment was \$49.0 million for the year ended 2018, compared to \$45.5 million in the year ended 2017. The increase in depreciation expense is the result of capital expenditures incurred during the year.

### **Share-based Compensation Expense**

Share-based compensation expense was \$10.3 million in the year ended 2018 compared to \$1.7 million in the year ended 2017. The increase in the expense is due primarily to the increase in the market value of Badger's common shares during 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 year ended 2018 was \$0.7 million compared to \$0.3 million in the prior year comparative. The loss on the sale of property, plant and equipment is the result of 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, which consists primarily of interest on the Company's senior secured notes and standby fees on the syndicated revolving credit facility, were \$4.9 million for the year ended 2018, \$0.6 million lower than the prior year of \$5.5 million. The decrease in finance costs in the current year is due to the absence of costs associated with the extension of Badger's syndicated revolving credit facility incurred in the prior year.

As at December 31, 2018, there was 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 2018 annual audited consolidated financial statements and further described herein.

### **Income Tax**

Total income tax expense for the year ended 2018 was \$29.8 million compared to \$5.8 million in 2017. Included in the 2018 total income tax expense is current income tax expense of \$12.8 million and deferred income tax expense of \$17.0 million, compared to current income taxes of \$20.3 million and a deferred income tax recovery of \$14.5 million in the prior year.

Current income tax expense for the year ended 2018 of \$12.8 million is \$7.5 million lower than the prior year due to reduced U.S. current income taxes. Current income tax expense is comprised of \$8.8 million in U.S. current income taxes (2017 - \$12.9 million) and \$4.0 million Canadian current income tax expense (2017 - \$7.4 million). The reduction in U.S. current income taxes is due to changes in U.S. corporate tax legislation 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 provisions, 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 Canadian current income taxes is primarily the result of the implementation of revised transfer pricing policies following the finalization of historical transfer pricing

initiatives.

Deferred income tax expense for the year ended 2018 was \$17.0 million compared to a deferred income tax recovery of \$14.5 million in the prior year. The increase in deferred income tax expense compared to the prior year is due primarily to the updated U.S. bonus depreciation provisions. In addition, the prior year deferred income tax provision included a \$17.2 million one-time recovery due to U.S. federal corporate tax rates changes associated with the enactment of changes to U.S. federal income tax legislation in the fourth quarter of 2017.

### **Net Profit**

Net profit for the year ended 2018 was \$67.8 million, a \$1.9 million increase compared to net profit of \$65.9 million in the prior year. The increase in net profit is due to 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 into Canadian dollars, and the offsetting translation of U.S. dollar denominated senior secured notes into Canadian dollars that are designated as a hedge of the U.S. operations, resulted in OCI of \$18.2 million for the year ended 2018. In 2017, OCI was a loss of \$10.8 million. The change in OCI in 2018 is the result of the U.S. dollar strengthening relative to the Canadian dollar throughout the year. OCI has no impact on Badger’s cash flow from operations or Adjusted EBITDA.

### **Liquidity and Dividends**

Cash flow from operating activities for the year ended 2018 was \$134.4 million, compared to the prior year of \$87.4 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 consolidated statement of cash flows contained within Badger’s audited consolidated financial statements for additional details. The increase in working capital is due to 2018 revenue growth which resulted in a normal course increase in working capital. Cash flow from operating activities before non-cash working capital and other adjustments were \$162.5 million in the year ended 2018 compared to \$123.7 million in the prior year. 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.

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 \$143.4 million at December 31, 2018, compared to \$113.9 million at December 31, 2017. The increase in working capital as at December 31, 2018, was driven by an increase in trade and other receivables and the impact of a stronger U.S. dollar on U.S. denominated receivables, partially offset by higher trade and other payables.

The largest component of Badger’s working capital is trade and other receivables. Trade and other receivables totalled \$159.8 million at December 31, 2018, \$47.8 million higher than the balance at December 31, 2017, of \$112.0 million. The increase is due to revenue growth in 2018 and the impact of a stronger U.S. dollar on the foreign currency translation of U.S. denominated receivables. Included in total trade and other receivables at

December 31, 2018, was \$3.7 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 December 31, 2018, 81% of Badger's trade receivables were aged 90 days or less, compared to 83% at December 31, 2017.

The Company uses its cash and cash equivalents to build additional hydrovacs units, to fund day-to-day operations, pay dividends, repurchase common shares 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, through a combination of cash flows from operating activities and its existing credit facility, is sufficient to meet the existing operational and capital expenditures of the business. Cash flows from operating activities are subject to variations and risks associated with the normal course operations of the business, including the impact of the seasonality within the business and the normal course timing and collection of working capital. See "Financing" for a summary of the key terms, conditions and unutilized capacity of the Company's syndicated revolving credit facility ("credit facility").

Badger is restricted from declaring dividends if it is in breach of the covenants governing its credit facility or senior secured notes. As at the date of this MD&A, the Company is in compliance with all debt covenants and is able to fully use its credit facility as well as declare dividends. The Company does not maintain a credit rating.

## Capital Resources

### Investing

Badger invested \$89.2 million on property, plant and equipment for the year ended 2018, compared to \$83.6 million in 2017. The majority of capital expenditures for 2018 related to the production of hydrovacs.

For the year ended 2018, Badger completed 191 hydrovacs, compared to 157 hydrovacs in 2017.

### Capital Expenditures

<i>(\$ thousands)</i>	Year ended December 31,	
	2018	2017
Hydrovac completed units and work-in-progress <sup>(1)(2)</sup>	81,083	73,661
Other vehicles and trailers	7,286	8,143
Buildings	28	869
Other	790	936
<b>Total capital expenditures</b>	<b>89,187</b>	<b>83,609</b>

<sup>(1)</sup> Total work-in-progress ("WIP"), including chassis and WIP on other vehicles, recognized on Badger's balance sheet as at December 31, 2018, and 2017, was \$12.2 million and \$11.9 million, respectively. The net change in WIP for the year ended 2018 was a cash outflow of \$0.3 million and for the year ended 2017 was a net outflow of \$6.1 million. The net change in WIP is included in Hydrovac completed units and work-in-progress in the above table.

<sup>(2)</sup> WIP includes hydrovacs currently being manufactured and chassis that will be used in future hydrovac builds.

## Average Annual Hydrovac Manufacturing Cost

	Completed Hydrovacs	Average Manufacturing Costs
<b>2018</b>	<b>191</b>	<b>\$396,000</b>
2017	157	\$399,000
2016 <sup>(1)</sup>	55	\$375,000
2015	63	\$390,000
2014	221	\$351,000
2013	175	\$338,000
2012	125	\$339,000

<sup>(1)</sup> 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.

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.

For 2018, Badger's average manufacturing cost was \$396,000 compared to \$399,000 in 2017. The modest decrease in the average manufacturing cost in 2018 compared to the 2017 manufacturing cost was due to lower overall labour costs as a result of efficiencies associated with manufacturing 191 hydrovacs in 2018 compared to 157 in 2017, the benefit of which, offset modestly higher chassis and other direct 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 certain materials are denominated or otherwise influenced by foreign currency exchange rates.

See "2019 Financial Outlook" for additional details on Badger's 2019 anticipated hydrovac build and retirements.

### Common Business Platform Project

Badger has initiated a process to upgrade and standardize its legacy information technology systems into a single enterprise resource planning system ("ERP"), 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 year ended December 31, 2018, 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 for the year ended December 31, 2018, were \$5.6 million, with \$0.2 million included in general and administrative expenses and \$5.4 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 second half of 2019. The Common Business Platform has an 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. Approximately 25% of the total costs associated with the project were incurred in 2018 which is consistent with Badger's previously provided disclosure. The remaining costs of the project are anticipated to be incurred 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.

## **Financing**

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### **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 \$147.7 million in aggregate Canadian dollars, consists of a \$100 million Canadian tranche and a US\$35 million tranche (\$47.7 million Canadian dollar equivalent as at December 31, 2018), 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 Canadian dollars. Badger maintains the credit facility for general corporate and liquidity purposes, in addition to financing requirements, if any, related to Badger's capital expenditure requirements.

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 standby 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 standby 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, 2018, the Company had issued letters of credit of \$3.9 million (December 31, 2017 - \$3.3 million). The outstanding letters of credit, which reduce the amount of available credit under the credit facility, support Badger's U.S. insurance program and certain other performance bonds.

At December 31, 2018, the Company had available \$143.8 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 (\$102.3 million Canadian equivalent at December 31, 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. The Company's significant financial covenants and the summary of the compliance with these covenants is detailed in the summary below.

Financial covenant	December 31, 2018	December 31, 2017	Threshold
Funded Debt to Compliance EBITDA <sup>(1)(2)</sup>	<b>0.6:1</b>	0.7:1	2.75:1 max
Interest Coverage Ratio <sup>(1)(3)</sup>	<b>30.9:1</b>	22.3:1	3.00:1 min
Tangible Net Worth <sup>(1)</sup>	<b>\$314.1 million</b>	\$290.1 million	\$184.1 million

<sup>(1)</sup> See "Non-IFRS Financial Measures" for additional details on the calculation of Funded Debt, Compliance EBITDA and Tangible Net Worth.

<sup>(2)</sup> Funded Debt to Compliance EBITDA as at December 31, 2018 calculated as \$96.2 million in Funded Debt divided by \$151.5 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.

<sup>(3)</sup> The Interest Coverage Ratio is calculated as Compliance EBITDA divided by interest expense. For the fiscal year ended 2018 calculated as \$151.5 million in Compliance EBITDA divided by \$4.9 million in interest expense and for the fiscal year ended 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 2018, and as at December 31, 2018, the Company was in compliance with the above noted covenants and all other covenants. For additional details on the credit facility and the senior secured notes, including the financial and non-financial covenants, see the Company's 2018 audited consolidated financial statements and the Company's 2018 Annual Information Form.

## Share Capital

As at December 31, 2018, the number of common shares outstanding was 36,582,738 (December 31, 2017 – 37,100,681) and the weighted average common shares outstanding were 37,083,766 (December 31, 2017 – 37,100,681).

As at March 12, 2019, the number of common shares outstanding was 35,879,438. Badger does not currently have any material financial instruments which can be converted into additional common shares.

See the Company's 2018 audited consolidated financial statement and "Normal Course Issuer Bid" for additional details on changes to share capital.

### **Normal Course Issuer Bid**

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On March 27, 2018, the Board of Directors approved the implementation of a normal course issuer bid (“NCIB”), pursuant to which the Company would have an option to repurchase its common shares for cancellation. On May 10, 2018, the Toronto Stock Exchange (the “Exchange”) accepted the notice (the “Notice”) filed by the Company to implement the NCIB.

The Company believes that from time-to-time, the market price of its common shares may not fully reflect the underlying value of its business, and that purchases of common shares for cancellation under the NCIB may provide an opportunity to enhance long-term total shareholder returns.

Under the NCIB, the Company may acquire up to 2,000,000 common shares during the period commencing on May 15, 2018 and ending May 14, 2019 or such earlier date on which the Company completes its purchases of common shares under the NCIB, or terminates the NCIB at its option.

For the year ended December 31, 2018, the Company purchased and cancelled 558,768 common shares at a weighted average price per share of \$31.96. In addition, the Company purchased 69,846 common shares in the last two trading days of fiscal 2018 at a weighted average price per share of \$31.97 which were settled and cancelled subsequent to December 31, 2018. In total, the Company purchased 628,614 common shares at a weighted average price per share of \$31.96 during fiscal 2018.

For the period January 1, 2019 through March 12, 2019, the Company purchased and cancelled 633,454 common shares at a weighted average price per share of \$33.50.

### **North American Trade Negotiations**

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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 and Other Commitments

The Company had the following contractual obligations and commitments at December 31, 2018:

<i>(\$ thousands)</i>	2019	2020	2021	2022	2023	Thereafter	Total
Operating leases <sup>(1)</sup>	4,849	3,838	2,369	1,204	786	1,184	14,230
Service contract <sup>(2)</sup>	2,116	1,747	1,780	1,389	220	-	7,252
Senior secured note interest <sup>(3)</sup>	4,942	4,118	2,471	824	-	-	12,355
Senior secured note repayment <sup>(4)</sup>	-	34,105	34,105	34,105	-	-	102,315
Purchase commitments <sup>(5)</sup>	26,514	-	-	-	-	-	26,514
<b>Total</b>	<b>38,421</b>	<b>43,808</b>	<b>40,725</b>	<b>37,522</b>	<b>1,006</b>	<b>1,184</b>	<b>162,666</b>

(1) Operating leases include buildings and office space.

(2) Contract with third party service provider for information technology services related to the enterprise resource planning project.

(3) 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 December 31, 2018, closing U.S. to Canadian foreign currency exchange rate. See notes to the audited consolidated financial statements for additional details.

(4) Senior note repayment is the principal amounts of the senior secured notes translated into Canadian dollars at the December 31, 2018, closing U.S. to Canadian foreign currency exchange rate. See notes to the audited consolidated financial statements for additional details.

(5) Purchase commitments include amounts related to manufacturing operations, the purchase of light-duty trucks and other committed capital expenditures.

## Selected Annual Financial Information <sup>(1)</sup>

<i>(\$ thousands, except per share amounts)</i>	2018	2017 <sup>(2)</sup>	2016 <sup>(2)</sup>
Revenue	615,442	496,808	397,182
Net profit	67,817	65,852	28,912
Net profit per share, basic and diluted	\$1.83	\$1.77	\$0.78
Total assets	603,890	501,348	458,347
Total non-current liabilities	155,724	128,146	135,466
Dividends paid	18,996	15,433	14,247
Dividends per share	\$0.51	\$0.42	\$0.38

(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.

(2) Certain comparative revenue amounts for the years ended December 31, 2017 and 2016 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.

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

- General improvements in economic growth and overall macro-economic conditions in both the United States and Canada;
- 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 supporting an increase in working capital associated with the underlying growth in the business; and
- Updated U.S. income tax legislation, effective December 22, 2017, impacted Badger's 2018 current and deferred income taxes and 2017 deferred income taxes.

## Fourth Quarter Results

### Financial Highlights

<i>(\$ thousands, except RPT, per share and share information)</i>	Three months ended	
	December 31, 2018	2017 <sup>(4)</sup>
Revenue:		
Hydrovac service revenue	171,516	125,603
Other service revenue	7,093	6,459
Total revenue	178,609	132,062
RPT- Consolidated (mixed currency) <sup>(1)(2)</sup>	37,837	31,921
RPT- U.S. (U.S. dollars) <sup>(1)(2)</sup>	40,859	34,059
RPT - Canada (Canadian dollars) <sup>(1)(2)</sup>	30,544	27,587
Adjusted EBITDA <sup>(1)</sup>	47,858	34,539
Adjusted EBITDA per share, basic and diluted <sup>(1)(3)</sup>	\$1.29	\$0.93
Adjusted EBITDA margin <sup>(1)</sup>	26.8%	26.2%
Profit before income tax	31,947	19,698
Net profit	23,468	31,244
Net profit per share, basic and diluted <sup>(3)</sup>	\$0.63	\$0.84
Cash flow from operating activities before working capital adjustments	48,936	34,364
Cash flow from operating activities before working capital adjustments per share, basic and diluted <sup>(3)</sup>	\$1.32	\$0.93
Dividends paid	5,009	4,043
Weighted average common shares outstanding <sup>(3)(5)</sup>	37,033,572	37,100,681

(1) See “Non-IFRS Financial Measures” and “Key Financial Metrics and Other Operational Metrics” for additional detail on the definition and calculation of Adjusted EBITDA, Adjusted EBITDA margin, and RPT.

(2) See “Changes in Key Financial Metrics and Classification of Revenue Groupings” for additional details on the calculation and disclosure of RPT.

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

(4) Certain comparative revenue amounts for the three months ended December 31, 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.

(5) See “Share Capital” for additional details.

### Comparable IFRS Financial Information <sup>(1)</sup>

<i>(\$ thousands, except per share information)</i>	Three months ended	
	December 31, 2018	2017
Cash flow from operating activities	67,196	42,252
Cash flow from operating activities per share, basic and diluted <sup>(2)</sup>	\$1.81	\$1.14

(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.

## Fourth Quarter 2018 Operational Highlights

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- Badger generated Adjusted EBITDA of \$47.9 million for the fourth quarter of 2018, an increase of 39% compared to \$34.5 million in Adjusted EBITDA realized 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 fourth quarter of 2018 of \$178.6 million was \$46.5 million or 35% higher compared to \$132.1 million in the prior year comparative quarter.
  - In the U.S., revenue for the fourth quarter of 2018 was US\$105.9 million, US\$30.5 million or 40% higher than the prior year comparative quarter of US\$75.4 million. In Canada, revenue for the fourth quarter of 2018 of \$38.9 million was \$3.0 million or 8% higher than the prior year comparative quarter with revenue of \$35.9 million.
  - Included in fourth quarter revenue is \$20.0 million in emergency response work related to hurricane Michael and the California wildfires, the impact of which was partially offset by a fourth quarter bad debt provision of \$5.3 million. The majority of the bad debt provision recognized in the fourth quarter relates to a Chapter 11 bankruptcy filing by a large utility customer for work performed related to the California wildfires.
- RPT for the fourth quarter of 2018 on a consolidated basis was \$37,837 compared to \$31,921 in the prior year comparative. RPT was US\$40,859 in the U.S. and \$30,544 in Canada, compared to US\$34,059 and \$27,587 in the prior year comparative quarter. The year-over-year improvements in RPT were 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 fourth quarter of 2018 was 31.5%, a 40 basis point or a 1% increase over the prior year comparative quarter margin of 31.1%, with Adjusted EBITDA margin for the fourth quarter of 2018 of 26.8%, a 60 basis point or 2% increase over the prior year comparative quarter margin of 26.2%.
  - Margins in the fourth quarter of 2018 benefitted from a reduction in direct operating costs, modest improvements in pricing and improved asset utilization, which more than offset the impact of higher bad debts as previously discussed.
- During the fourth quarter of 2018, Badger placed 14 net hydrovacs into service, consisting of 30 new and 16 retired. As at December 31, 2018, Badger had 1,221 hydrovacs in operation compared to 1,109 as at December 31, 2017. See "Capital Resources" for additional details.
- Net profit for the fourth quarter of 2018 was \$23.5 million or \$0.63 per share compared to \$31.2 million or \$0.84 per share in the prior year comparative quarter. Net profit was positively impacted by higher Adjusted EBITDA, offset by higher income taxes due to improved financial results and the absence of a \$17.2 million one-time deferred income tax recovery recognized in 2017 due to changes in U.S. income tax legislation enacted in 2017, and modestly higher depreciation expense as a result of the growth in Badger's fleet.
- During the fourth quarter of 2018, the Company purchased 628,614 million common shares at a weighted average price per share of \$31.96 pursuant to its NCIB.

## Results of Operations

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### Revenues

Revenues of \$178.6 million for the fourth quarter of 2018 were 35% higher than the \$132.1 million generated during the prior year comparative quarter. Throughout the fourth quarter of 2018, Badger realized improved demand for hydrovac and related services, particularly in its U.S. markets. The increase in revenue in the fourth quarter of 2018 over the prior year comparative quarter is attributable to the following:

- Revenue in the U.S. operations increased by 40% to US\$105.9 million for the fourth quarter of 2018 compared to US\$75.4 million in the prior year comparative quarter. Revenue growth throughout the fourth quarter of 2018 was attributable to continued growth from both new and existing customers across the majority of Badger's U.S. markets, combined with the impact of emergency response work due to hurricane Michael and the California wildfires. Revenue for the fourth quarter of 2018 includes \$20.0 million in revenue related to customer emergency response work, the impact of which was partially offset by a fourth quarter bad debt provision of \$5.3 million. The majority of the bad debt provision recognized in the fourth quarter relates to a Chapter 11 bankruptcy filing by a large utility customer for work performed related to the California wildfires.
- 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 \$139.7 million in the fourth quarter of 2018, compared to \$96.1 million in the prior year comparative quarter, a 45% 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 fourth quarter of 2018 was CDN\$1.32 to US\$1.00 compared to CDN\$1.28 to US\$1.00 in the prior year comparative quarter.
- Revenue in the Canadian operations of \$38.9 million was modestly higher than the prior year comparative quarter of \$35.9 million, as modest improvements in general customer demand related to infrastructure and construction offset the impact of weaker demand in oil and gas markets.
- Average hydrovac rates in the Canadian operations were consistent to modestly higher than the prior year comparative quarter.
- Revenue growth in both the U.S. and Canadian operations was limited in certain regions due to the availability of trained operators.
- Other services revenue for the fourth quarter of 2018 was \$7.1 million, \$0.6 million higher than the prior year comparative quarter of \$6.5 million due to modest improvements in customer demand related to Badger's non-hydrovac related service lines such as sewer flushing and industrial tank cleaning.

RPT for the fourth quarter of 2018 was \$37,837 on a consolidated basis compared to \$31,921 in the prior year comparative quarter. RPT for the fourth quarter of 2018 in the U.S. was US\$40,859 and in Canada was \$30,544 compared to US\$34,059 and \$27,587 in the prior year quarter comparative, respectively. The improvement in RPT for the fourth quarter of 2018 was due primarily to a combination of higher overall revenues, the timing of emergency response work and general customer growth as discussed above.

As disclosed in the third quarter of 2018, effective with the Company's 2018 fourth quarter and annual disclosure documents, Badger has revised its calculation of RPT and the classification of certain revenue groupings, due in part to the adoption of IFRS 15, and improving the transparency and comparability of various key financial measures. See "Changes in Key Financial Metrics and Classification of Revenue Groupings" and "Changes in Accounting Policies" for additional details.

For additional information on RPT, refer to the definition under the “Key Financial Metrics and Other Operational Metrics” section.

### **Direct Costs**

Direct costs for the fourth quarter of 2018 were \$122.4 million compared to \$91.0 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 fourth quarter of 2018 were 68.5%, 40 basis points or 1% lower than the prior year comparative quarter of 68.9%. Direct costs in the fourth 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, improved asset utilization and growth of the business in lower labour cost regions, 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.

Bad debt expense is included in direct costs and for the fourth quarter of 2018 was \$5.3 million compared to nil in the prior year comparative quarter. The increase in the bad debt expense is primarily the result of a Chapter 11 bankruptcy filing by a large utility customer in the United States for work related to the California wildfires. The prior year comparative quarter was also impacted by the timing and amount of bad debt recoveries which will vary on a year-over-year basis.

### **Gross Profit**

Gross profit for the fourth quarter of 2018 was \$56.2 million compared to \$41.1 million in the prior year comparative quarter. Gross profit margin was 31.5% for the fourth quarter of 2018, compared to 31.1% for the fourth quarter of 2017. Gross profit margin in the U.S. operations was 32.7% in the fourth quarter of 2018 compared to 31.5% in the fourth quarter of 2017. For the Canadian operations, gross profit margin was 27.3% in the fourth quarter of 2018 compared to 30.1% in the fourth quarter of 2017. The improvement in gross profit margin in the U.S. was driven by a reduction in direct operating costs, primarily the result of improved labour efficiency as noted in the discussion on direct costs, combined with an improvement in average hydrovac rates and changes in sales mix in certain regions, which more than offset the increase in bad debt expense as previously discussed. The decrease in gross profit margins in Canada was due to modestly higher non-variable direct costs. As previously noted, average hydrovac rates for the fourth quarter of 2018 compared to the prior year comparative quarter were consistent to modestly higher across the majority of the U.S. and Canadian operations.

Gross profit margin, with the greatest impact in the U.S. operations, 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 fourth quarter of 2018 were \$8.3 million compared to \$6.6 million in the prior year comparative quarter. As a percentage of revenue, general and administrative expenses were 4.6% in the fourth quarter of 2018 compared to 5.0% 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. Included in general and administrative expense for the fourth quarter of 2018 is \$0.1 million in expense associated the Common Business Platform.

### **Depreciation of Property, Plant and Equipment**

Depreciation of property, plant and equipment was \$12.0 million for the fourth quarter of 2018, compared to \$11.9 million in the fourth quarter of 2017. Depreciation expense for the fourth quarter of 2018 was impacted by capital expenditures incurred during the trailing four quarters, offset by the impact of the finalization of certain excise tax adjustments associated with the settlement of Badger's historical transfer pricing initiatives.

### **Share-based Compensation Expense**

Share-based compensation expense was \$3.9 million in the fourth quarter of 2018 compared to \$1.3 million in the fourth quarter of 2017. The increase in the expense is due primarily to the increase in the market value of Badger's common shares during the fourth 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**

Gain on the sale of property, plant and equipment for the fourth quarter of 2018 was \$0.2 million compared to a loss of \$0.3 million in the prior year comparative quarter. The gain on the sale of property, plant and equipment is due to the residual value of units retired and disposed of being less 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, which consists primarily of interest on the Company's senior secured notes and standby fees on the syndicated revolving credit facility, were \$1.3 million for the fourth quarter of 2018, consistent with the prior year comparative quarter of \$1.3 million.

### **Income Tax**

Total income tax expense for the fourth quarter of 2018 was \$8.5 million compared to a recovery of \$11.5 million in the prior year comparative quarter. Included in total income tax expense is a current income tax recovery of \$0.1 million and deferred income tax expense of \$8.6 million for the fourth quarter of 2018, compared to current income taxes of \$2.4 million and deferred income tax recovery of \$13.9 million in the prior year comparative quarter.

Current income tax expense for the fourth quarter of 2018 was a recovery of \$0.1 million which is \$2.5 million lower than the prior year comparative quarter of \$2.4 in current income taxes. Current income tax expense was impacted by higher U.S. current income taxes as a result of improved financial results, offset by a recovery of Canadian income taxes due to the finalization of historical transfer pricing initiatives.

Deferred income tax expense for the fourth quarter of 2018 was \$8.6 million compared to a deferred income tax recovery of \$13.9 million in the prior year quarter. The increase in deferred income tax expense compared to the prior year 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. In addition, the prior year deferred income tax provision included a \$17.2 million one-time recovery due to U.S. federal corporate tax rates changes associated with the enactment of changes to U.S. federal income tax legislation in the fourth quarter of 2017.

### **Net Profit**

Net profit for the fourth quarter of 2018 was \$23.5 million, \$7.7 million lower than the prior year comparative quarter of \$31.2 million. The decrease in net profit is primarily due to the impact of U.S. income tax changes enacted and recognized in 2017, which resulted in a \$17.2 million one-time future income tax recovery in the fourth quarter of 2017 for which there is no corresponding event in the fourth quarter of 2018. Excluding the impact of prior year quarter income tax changes, net profit in the fourth quarter of 2018 was impacted by increased revenues, higher gross profit margins and improved asset utilization, offset by higher 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 into Canadian dollars, and the offsetting translation of U.S. dollar denominated senior secured notes into Canadian dollars that are designated as a hedge of the U.S. operations, resulted in OCI of \$11.5 million in the fourth quarter of 2018, compared to OCI of \$0.1 million in the fourth quarter of 2017. The change in OCI is due primarily to the U.S. dollar strengthening relative to the Canadian dollar throughout the fourth quarter of 2018. OCI has no impact on Badger’s cash flow from operations or Adjusted EBITDA.

### **Liquidity and Dividends**

Cash flow from operating activities for the fourth quarter of 2018 was \$67.2 million, compared to the prior year comparative quarter of \$42.3 million. Cash flow from operating activities was impacted by higher net profit after the impact of certain non-cash adjustments, and the receipt of a \$15.4 million income tax refund associated with historical transfer pricing initiatives, offset by an increase in working capital. The increase in working capital is due to ongoing organic revenue growth in Badger’s business. Cash flow from operating activities before non-cash working capital and other adjustments were \$48.9 million in the fourth quarter of 2018 compared to \$34.4 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.

## Capital Resources

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### Investing

Badger invested \$17.6 million in property, plant and equipment for the three months ended December 31, 2018, compared to \$21.7 million in the prior year comparative quarter. The majority of capital expenditures for the fourth quarter of 2018 related to the production of hydrovacs.

See the discussion on “Capital Resources” and “Investing” for the years ended 2018 and 2017 for additional details on capital spending including details on the manufactured cost of hydrovacs for fiscal 2018 and 2017.

### Capital Expenditures

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(\$ thousands)	Three months ended December 31,	
	2018	2017
Hydrovac trucks and work-in-progress	14,985	19,388
Other vehicles and trailers	2,574	2,196
Buildings	-	52
Other	79	98
<b>Total capital expenditures</b>	<b>17,638</b>	<b>21,734</b>

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### Common Business Platform Project

For the three months ended December 31, 2018, total costs incurred were \$3.3 million, with \$0.1 million included in general and administrative expenses and \$3.2 million capitalized and categorized as a component of intangible assets.

## Financial Instruments and Risk Management

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### 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, income taxes 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 2018 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, petroleum and construction industries and are subject to industry credit risks. The Company manages its exposure to credit risk through standard credit-granting procedures and payment terms. The Company attempts to monitor the 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, which are explained 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, or currently is, 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 the Company's 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, the US\$75.0 million fixed rate senior secured notes, which are used to manage, in part, 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 <sup>(1)</sup>			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	178,609	168,712	147,550	120,571	132,062	140,903	123,696	100,147
Net profit	23,468	25,689	10,586	8,074	31,244	16,192	14,718	3,698
Net profit per share, basic and diluted (\$)	0.63	0.69	0.29	0.22	0.84	0.44	0.40	0.10
Dividends paid	5,009	5,009	4,749	4,229	4,229	3,858	3,673	3,673
Dividends per share, basic and diluted (\$)	0.135	0.135	0.128	0.114	0.114	0.104	0.099	0.099

<sup>(1)</sup> 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.

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

- General improvements in economic growth and overall macro-economic conditions in both the United States and Canada;
- 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;
- Timing of customer emergency response services due to natural disasters;
- Additional investments related to the manufacture of hydrovac units and an increase in working capital requirements 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 2018 current income tax expense and deferred income taxes in the fourth quarter of 2017.

## 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 and hydrovac related revenue only. RPT is calculated on both a consolidated basis and for each geographic segment by dividing hydrovac and hydrovac related revenue for each segment, in the respective local currency, by the average number of hydrovacs in the segment during the period.

Effective with the 2018 fourth quarter and annual MD&A, financial statements, and other applicable disclosure documents, the Company has updated its calculation and presentation of RPT, and the presentation and the classification of certain revenue groupings. The previous calculation of RPT utilized internal, non-disclosed information, and as such, it was not possible for a user of the Company’s disclosure documents to calculate the measure themselves. The revised calculation and presentation of RPT is derived from information available directly from the Company’s consolidated financial statements and operational disclosures, providing users greater transparency and the ability to calculate this measure.

### Revenue per truck per month – United States

	2018					2017 <sup>(1)</sup>				
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Total revenue	465,917	139,724	129,300	111,519	85,374	357,108	96,124	101,382	90,467	69,135
Less: Other revenue	2,929	830	788	816	495	2,414	479	824	711	400
Hydrovac revenue	462,988	138,894	128,512	110,703	84,879	354,694	95,645	100,558	89,756	68,735
Foreign exchange rate <sup>(3)</sup>	1.2992	1.3191	1.3068	1.2917	1.2663	1.2986	1.2753	1.2672	1.3431	1.3229
Hydrovac revenue - U.S. equivalent	356,364	105,295	98,341	85,703	67,029	273,137	74,998	79,354	66,827	51,958
Average hydrovacs <sup>(2)</sup>	807	859	839	807	767	708	734	712	696	678
<b>RPT (U.S. dollars) <sup>(4)</sup></b>	<b>36,799</b>	<b>40,859</b>	<b>39,071</b>	<b>35,400</b>	<b>29,130</b>	<b>32,149</b>	<b>34,059</b>	<b>37,151</b>	<b>32,005</b>	<b>25,545</b>

### Revenue per truck per month – Canada

	2018					2017 <sup>(1)</sup>				
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Total revenue	149,525	38,885	39,412	36,031	35,197	139,700	35,938	39,521	33,229	31,012
Less: Other revenue	25,307	6,264	7,044	6,927	5,072	25,312	5,979	6,860	5,993	6,480
Hydrovac revenue	124,218	32,621	32,368	29,104	30,125	114,388	29,959	32,661	27,236	24,532
Average hydrovacs <sup>(2)</sup>	359	356	360	366	365	359	362	357	348	350
<b>RPT <sup>(4)</sup></b>	<b>28,834</b>	<b>30,544</b>	<b>29,970</b>	<b>26,506</b>	<b>27,511</b>	<b>26,552</b>	<b>27,587</b>	<b>30,496</b>	<b>26,088</b>	<b>23,364</b>

## Revenue per truck per month– Consolidated (mixed currency)

	2018					2017 <sup>(1)</sup>				
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Hydrovac revenue - Canada	124,218	32,621	32,368	29,104	30,125	114,388	29,959	32,661	27,236	24,532
Hydrovac revenue - U.S.	356,364	105,295	98,341	85,703	67,029	273,137	74,998	79,354	66,827	51,958
Total hydrovac revenue	480,582	137,916	130,709	114,807	97,154	387,525	104,957	112,015	94,063	76,490
Average hydrovacs <sup>(2)</sup>	1,166	1,215	1,199	1,173	1,132	1,067	1,096	1,069	1,044	1,028
<b>RPT <sup>(4)</sup></b>	<b>34,347</b>	<b>37,837</b>	<b>36,338</b>	<b>32,625</b>	<b>28,608</b>	<b>30,266</b>	<b>31,921</b>	<b>34,928</b>	<b>30,033</b>	<b>24,802</b>

(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.

(2) See “Fleet Summaries” for additional details.

(3) Foreign exchange rate calculated on a weight average basis for the respective period. See “Foreign Exchange Rates” for additional details.

(4) Revenue per truck per month is calculated by taking hydrovac revenue divided by the number of average trucks for the period and further divided by the number of months in the respective period, being three months for a quarter and twelve months for an annual period.

## Revenue per truck per month – as previously calculated and disclosed

Revenue per truck per month – quarterly average	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total	35,800	35,500	30,300	27,300	31,300	34,125	29,141	24,747

Revenue per truck per month as calculated on the previous basis for the year ended December 31, 2018 would have been \$32,300, and for the year ended December 31, 2017 \$30,075.

## Fleet Summaries

### Number of hydrovacs at period end

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Canada	355	356	363	368	362	361	353	343
U.S.	866	851	827	786	747	720	703	688
<b>Total</b>	<b>1,221</b>	<b>1,207</b>	<b>1,190</b>	<b>1,154</b>	<b>1,109</b>	<b>1,081</b>	<b>1,056</b>	<b>1,031</b>

### Average number of hydrovacs during the period <sup>(1)</sup>

	2018					2017				
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Canada	359	356	360	366	365	359	362	357	348	350
U.S.	807	859	839	807	767	708	734	712	696	678
Consolidated	1,166	1,215	1,199	1,173	1,132	1,067	1,096	1,069	1,044	1,028

(1) The average number of hydrovacs during the period is calculated using a simple average between the opening number of hydrovacs during the period and the closing number of hydrovacs during the period.

## Marketing and Franchise Agreements

Number of Marketing and Franchise Agreements	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Canada	9	9	9 <sup>(5)</sup>	10	10	10 <sup>(3)</sup>	11 <sup>(1)</sup>	12
U.S.	4	4	4	4 <sup>(4)</sup>	3	3	3 <sup>(2)</sup>	4
<b>Total</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>14</b>	<b>13</b>	<b>13</b>	<b>14</b>	<b>16</b>

- (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					
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Period weighted average <sup>(1)</sup>	1.2992	1.3191	1.3068	1.2917	1.2663	1.2986	1.2753	1.2672	1.3431	1.3229
Period end	1.3642	1.3642	1.2945	1.3168	1.2894	1.2545	1.2545	1.2480	1.2977	1.3323

- (1) Period weighted average foreign exchange rate as calculated utilizing individual monthly average foreign exchange rates, on a weighted basis, for the underlying respective period.

The weighted average foreign exchange rate of 1 U.S. dollar to the Canadian dollar for the twelve months ended December 31, 2018 was 1.2992 and for the twelve months ended December 31, 2017 was 1.2986.

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		Twelve months ended	
	December 31,		December 31,	
Adjusted EBITDA	2018	2017	2018	2017
Net profit	23,468	31,244	67,817	65,852
Add:				
Depreciation of property, plant and equipment	12,038	11,943	48,996	45,458
Share-based compensation expense	3,949	1,298	10,321	1,679
Loss (gain) on sale of property, plant and equipment	(204)	250	740	305
Finance cost	1,256	1,254	4,892	5,523
Foreign exchange loss (gain)	(1,128)	96	(876)	791
Income tax expense (recovery)	8,479	(11,546)	29,817	5,773
<b>Adjusted EBITDA</b>	<b>47,858</b>	<b>34,539</b>	<b>161,707</b>	<b>125,381</b>

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended		Twelve months ended	
	December 31,		December 31,	
Adjusted EBITDA	2018	2017	2018	2017
Revenue	178,609	132,062	615,442	496,808
Less:				
Direct costs	122,419	90,973	424,162	350,216
General and administrative expense	8,332	6,550	29,573	21,211
<b>Adjusted EBITDA</b>	<b>47,858</b>	<b>34,539</b>	<b>161,707</b>	<b>125,381</b>

“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,	
	2018	2017	2018	2017
<b>Adjusted EBITDA margin</b>				
Adjusted EBITDA	47,858	34,539	161,707	125,381
Revenue	178,609	132,062	615,442	496,808
<b>Adjusted EBITDA margin</b>	<b>26.8%</b>	26.2%	<b>26.3%</b>	25.2%

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

Compliance EBITDA is calculated as follows:

(\$ thousands)	Twelve months ended December 31,	
	2018	2017
<b>Compliance EBITDA</b> <sup>(1)</sup>		
Net profit	67,817	65,852
Add:		
Depreciation of property, plant and equipment	48,996	45,458
Finance cost	4,892	5,523
Income tax expense	29,817	5,773
<b>Compliance EBITDA</b>	<b>151,522</b>	122,606

<sup>(1)</sup> Compliance EBITDA for the three months ended December 31, 2018, and for the year ended December 31, 2018, are the same calculation, as Compliance EBITDA is computed on a 12-month trailing basis.

“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 the Company to calculate compliance with its debt covenants and other credit information.

Funded Debt is calculated as follows:

(\$ thousands)	As at December 31,	
Funded Debt	2018	2017
Long-term debt	102,315	94,088
Current portion of long-term debt	-	-
Total debt	102,315	94,088
Add: issued letters of credit	3,856	3,325
Less: cash on hand <sup>(1)</sup>	(10,000)	(10,000)
<b>Funded Debt</b>	<b>96,171</b>	87,413

<sup>(1)</sup> 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 facility.

“**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,	
<b>Tangible Net Worth</b>	<b>2018</b>	2017
Shareholders equity	<b>366,502</b>	318,494
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	<b>(37,201)</b>	(18,888)
Less: intangible assets and goodwill	<b>(15,212)</b>	(9,479)
<b>Tangible Net Worth</b>	<b>314,089</b>	290,127

### **Changes in Key Financial Metrics and Classification of Revenue Groupings**

Effective with the 2018 fourth quarter and annual financial statements, MD&A and other applicable disclosure documents, the Company has updated the calculation and presentation of RPT and the presentation and the classification of certain revenue groupings. The previous RPT calculation utilized internal, non-disclosed information, as such, it was not possible for a user of the Company’s disclosure documents to calculate the measure themselves. The revised calculation and presentation of RPT is derived from information available directly from the Company’s consolidated 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 has made certain changes with respect to the presentation of revenue. Previously, revenues were grouped as follows: Hydrovac Service Revenue; Other Service Revenue; and Truck Placement Fees. Other Service Revenue included hydrovac related revenues such as third party, disposition and other hydrovac related ancillary charges. The updated categorization moves all hydrovac related revenues into a single category: Hydrovac Revenue. The Company’s updated classifications include Hydrovac Revenue and Other Revenue. The historical revenue category Truck Placement Fees is now included in Other Revenue. There is no impact on the Company’s consolidated revenue, gross profits, net income or Adjusted EBITDA as a result of the change in revenue categorization.

See “Key Financial Metrics and Other Operational Metrics” and the Company’s audited consolidated financial statements for additional details.

## Changes in Accounting Policies

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### **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 twelve months ended December 31, 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 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 months ended December 31, 2017 and the year ended December 31, 2017:

### Three Months Ended December 31, 2017

	Revenue	Direct Costs	Gross Profit	Gross Margin
Historical - reported under IAS 18	132,789	91,700	41,089	30.9%
<b>Operating partner adjustments</b>				
Less: Revenue reported under IAS 18 <sup>(1)</sup>	(13,965)		(13,965)	
Less: Payments to operating partners under IAS 18		(8,131)	8,131	
Add: Net revenue under IFRS 15 <sup>(2)</sup>	5,834		5,834	
<b>Third party adjustments</b>				
Less: Revenue reported under IAS 18 <sup>(3)</sup>	(2,313)		(2,313)	
Add: Revenue under IFRS 15 <sup>(4)</sup>	9,717		9,717	
Add: Direct costs under IFRS 15 <sup>(5)</sup>		7,404	(7,404)	
<b>Reported under IFRS 15</b>	<b>132,062</b>	<b>90,973</b>	<b>41,089</b>	<b>31.1%</b>
Net impact of IFRS 15 adoption	(727)	(727)	-	0.2%

### 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%
<b>Operating partner adjustments</b>				
Less: Revenue reported under IAS 18 <sup>(1)</sup>	(52,620)		(52,620)	
Less: Payments to operating partners under IAS 18 <sup>(6)</sup>		(30,625)	30,625	
Add: Net revenue under IFRS 15 <sup>(2)</sup>	21,995		21,995	
<b>Third party adjustments</b>				
Less: Revenue reported under IAS 18 <sup>(3)</sup>	(7,143)		(7,143)	
Add: Revenue under IFRS 15 <sup>(4)</sup>	35,340		35,340	
Add: Direct costs under IFRS 15 <sup>(5)</sup>		28,197	(28,197)	
<b>Reported under IFRS 15</b>	<b>496,808</b>	<b>350,216</b>	<b>146,592</b>	<b>29.5%</b>
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

### Annual - 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	90,973	95,653	87,084	76,507	91,700	96,035	86,739	78,171
Gross profit	41,089	45,250	36,612	23,640	41,089	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 audited consolidated financial statements for additional background and details related to the adoption of IFRS 15.

### IFRS 9 – Financial Instruments

Badger adopted IFRS 9 – *Financial Instruments* 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 impacts 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 audited consolidated financial statements for additional background and details related to the adoption of IFRS 9.

## **Accounting Pronouncements**

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### **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.

### **Critical Accounting Policies and Estimates**

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Badger's audited consolidated financial statements have been prepared in accordance with IFRS. The significant accounting policies are described in the audited consolidated financial statements for the year ended December 31, 2018. 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 consolidated 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 at the end of each reporting period and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. Future results of operations could be materially affected by changes in the estimated useful lives due to 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 a significant 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 current 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. 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, non-compete agreements and costs associated with the Company’s enterprise resource planning (“ERP”) implementation. The initial valuation of intangible assets 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**

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### **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, 2018 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, 2018 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 2018 or in the year ended December 31, 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.

## CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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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, the timing and implications of the finalization and ratification of the United States-Mexico-Canada Agreement, 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 2019 will be in the range of \$170 to \$190 million;
- Badger anticipates that the number of new hydrovac builds for 2019 will be approximately 190 to 220 units and that hydrovac retirements for 2019 will be in the range of 40 to 60 units;
- Badger anticipates that gross profit margin for 2019 will be similar to 2018 and that RPT will be modestly lower in 2019 than 2018;
- 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 States-Mexico-Canada agreement;
- Badger's estimated 2019 and long-term target for general and administrative expenses as a percentage 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;
- 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: political and economic conditions; industry competition; price fluctuations for oil and natural gas and related products and services; Badger's ability to attract and retain key personnel; 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.

Any future orientated financial information and financial outlook information (collectively, "FOFI") contained in this MD&A, as such terms are defined by applicable securities laws, is provided for the purpose of providing information about management's current expectations and plans relating to the future and is subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs. Management believes that the FOFI has been prepared on a reasonable basis, reflecting best estimates and judgments; however, actual results of the Company's operations and financial outcomes may vary from the amounts set forth herein. FOFI contained in this MD&A was made as of the date of this MD&A and the Company does not undertake any obligation to publicly update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. Readers are cautioned that any FOFI contained herein should not be used for purposes other than those for which it has been disclosed herein.

Readers are cautioned that the foregoing factors are not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results is included in reports on file with securities regulatory authorities in Canada and may be accessed through the SEDAR website ([www.sedar.com](http://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**

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The risk factors and uncertainties detailed below are a summary of Badger's assessment of its material risk factors as detailed in Badger's 2018 Annual Information Form under "Risk Factors" which is filed on the Canadian Securities Administrators' website, [www.sedar.com](http://www.sedar.com) and on Badger's website, [www.badgerinc.com](http://www.badgerinc.com). Information contained within these websites does not constitute part of this MD&A. General risks to Badger are as follows:

### **Fluctuations in the Economy and Political Landscape**

The Company'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.

### **Reliance on Certain End Use and Geographic Markets**

Badger operates across a wide range of end use infrastructure markets, as well as across a wide geographic footprint. Specifically, the oil and natural gas sector has historically been a significant end use market for Badger. 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 also provides emergency response related services, including work related to large scale natural disasters such as hurricanes. The timing, size and nature of the services related to emergency response work performed by Badger is highly variable as a result of the non-recurring and specific nature of these type of events. 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.

### **Global Financial Conditions**

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

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

### **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.

### **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 geographies, and its ability to recruit and retain drivers with the necessary skills, including commercial driver's licenses, is subject to local and regional labour market conditions.

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

### **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 disruption or delays in the sourcing of new products or suppliers could have a material adverse effect on Badger's business, financial condition and results from operations. In addition, Badger's ability to grow will be dependent on the Company having access, at a reasonable cost and in a

timely manner, to parts and products required to manufacture hydrovacacs. No assurance can be given that the Company will be successful in maintaining the required supply of parts and products to manufacture hydrovacacs.

### **Fluctuations in Weather and Seasonality**

Badger's operating results have been, and are expected to continue to be, subject to fluctuations on a quarterly basis due to a variety of factors including changes in weather conditions and seasonality. In the western United States, Badger has in the past, been restricted by the imposition of government regulations from conducting its work in environmentally sensitive areas during the mating seasons of certain animals and birds. This has had a negative effect on Badger's results. As such, changes in the weather and seasonality may, depending on the location and nature of the event, have either a positive or negative effect on Badger's operating and financial results.

### **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.

### **Safety**

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. 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 hydrovacacs or damage to equipment or property caused by one of Badger's hydrovacacs, whether during operation or while in transit on public motorways, and could involve significant potential claims or injuries to employees and other third-parties.

### **Operating Risk and Insurance Coverage**

Badger's operations are subject to certain risks due to the nature and environment in which Badger operates and the types of services Badger provides. Badger is and will continue to be involved in various legal proceedings and litigation that arise in the normal course of business. Badger maintains insurance policies with insurers for such circumstances, and in such amounts and with such coverages and deductibles, as it believes is reasonable and prudent. However, there can be no assurance that such insurance will cover all circumstances under which Badger will be subject to potential future claims related to its operations, or that such insurance will be adequate to protect Badger from all material expenses related to potential future claims related to its operations or that such levels of insurance will be available in the future at economical prices. Also, there can be no assurance that Badger's insurance providers will have the ability to satisfy all future claims in accordance with the policies.

### **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.

### **Capital Investment**

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

### **Access to Capital**

The Company may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures, to undertake acquisitions or other business combination transactions or for general corporate purposes. There can be no assurance that additional financing will be available to the Company when needed or on terms acceptable to the Company. The Company's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect on the Company. The agreements governing the Company's various credit agreements impose certain operating and financial covenants on the Company that may prevent the Company from pursuing certain business opportunities and restrict its ability to operate its business.

Additionally, the Company's ability to comply with these covenants will likely be affected by events beyond its control, and the Company cannot assure that it will satisfy those requirements. If the Company's financial performance results in a breach of any existing or future financial covenants, access to financing could be restricted and/or all or a portion of the Company's debt could become due on demand.

### **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 laws and regulations applicable to Badger's operations provide that Badger could be liable for fines, penalties and other costs in the event that it is found to not be in compliance with those laws and regulations. A failure to comply with such laws and regulations could 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 Badger is accordingly subject to regulation by Canadian securities regulators and Canadian federal and provincial laws and regulations.

### **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 September 30, 2018, Canada, the United States and Mexico announced the completion of negotiations on the United States-Mexico-Canada Agreement ("USMCA"). The USMCA is currently subject to final ratification. Implementation of new legislative or regulatory regimes or further revisions to the USMCA could impose additional costs on the Company, decrease demand for the Company's services or otherwise negatively impact the Company, which may have a material adverse effect on the Company's business, financial condition and results of operations.

Although regulatory expenditures have not, historically, been material to Badger, such laws, regulations and guidelines are subject to change. Accordingly, it is impossible for Badger to predict the cost or effect of such future laws, regulations or guidelines on Badger's future 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 Badger Shareholders or otherwise have a material adverse effect on Badger's business, financial condition, and results of operations.

### **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.

### **Cyber Security and Terrorism**

Badger relies on information technology, such as computer hardware and software systems, in order to properly operate its business. In the event the Company was unable to regularly deploy software and hardware, effectively upgrade systems and network infrastructure, and take other steps to maintain or improve the efficiency and efficacy of systems, the operation of such systems could be interrupted or result in the loss, corruption, or release of data. In addition, information systems could be damaged or interrupted by natural disasters, force majeure events, telecommunications failures, power loss, acts of war or terrorism, computer viruses, malicious code, physical or

electronic security breaches, intentional or inadvertent user misuse or error, or similar events or disruptions. Any of these or other events could cause interruptions, delays, loss of critical and/or sensitive data or similar effects, which could have a material adverse impact on the protection of intellectual property, and confidential and proprietary information, and on Badger's business, financial condition, and results of operations.

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

The Company attempts to prevent security breaches and other related information technology risks by implementing various technology security measures, segregating control systems from our general business networks, engaging skilled employees and consultants to manage our technology applications and adopting policies and procedures as deemed appropriate. Data backup and recovery processes are in place to minimize the risk of data loss and resulting disruption of business.

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 risks materialize, they could have a material adverse impact on the Company's business, financial condition, and results of 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 operating, investing and financing related activities, including the amount of cash available for dividends.

### **Development of Alternative or 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 of 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.