

Management's Discussion and Analysis

FOR THE YEAR ENDED DECEMBER 31, 2020

March 11, 2021

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited Consolidated Financial Statements and notes thereto of Badger Daylighting Ltd. (the "Company" or "Badger") as at and for the years ended December 31, 2020 and 2019. Readers should also refer to all previous public filings, including the Company's Annual Information Form for the year ended December 31, 2020, which may be found on SEDAR at 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, 2020 and 2019, 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 11, 2021. All references to "dollars" and "$" are to the currency of Canada unless otherwise indicated. This MD&A includes forward-looking statements and assumptions. See "Cautionary Statements Regarding Forward-Looking Information and Statements" for additional details.

Overview of Badger

Badger is North America's largest provider of non-destructive excavating services. Badger works for contractors and facility owners in a broad range of infrastructure industries. These market segments consist primarily of infrastructure projects in areas such as energy generation, electricity and natural gas transmission networks, roads and highways, telecommunications, water and sewage treatment and general municipal infrastructure. Customers in these segments typically operate near high concentrations of underground power, communication, water, gas and sewer lines, particularly in large urban centres where safety and economic risks are high and therefore non-destructive excavation provides a safe alternative for certain customer excavation requirements. The Company's key technology is the Badger Hydrovac™, which is used primarily for safe excavation around critical infrastructure and in congested underground 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 and designs its truck-mounted hydrovac units, giving Badger the opportunity to incorporate feedback from its hydrovac operators into its existing and future design and manufacturing processes.

Badger's business model involves the provision of excavating services through two distinct channels to market: 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 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. Badger now pursues expansion into new geographic areas primarily through Badger corporate operations, but continues to seek operating partners in certain markets.

Financial Highlights

($ thousands, except revenue per truck per month ("RPT"), per share and share information)	Year ended December 31, **2020**	2019
Revenue:		
Hydrovac service revenue	**531,852**	627,578
Other revenue	**26,775**	26,704
Total revenue	**558,627**	654,282
RPT - Consolidated (mixed currency)[(1)]	**25,484**	32,442
RPT - U.S. (U.S. dollars)[(1)]	**27,512**	34,504
RPT - Canada (Canadian dollars)[(1)]	**20,340**	27,248
Adjusted EBITDA[(1)]	**122,828**	158,446
Adjusted EBITDA per share, basic and diluted[(1)(2)]	**$3.52**	$4.42
Adjusted EBITDA margin[(1)]	**22.0%**	24.2%
Profit before income tax	**33,143**	76,198
Net profit	**24,749**	59,732
Net profit per share, basic and diluted[(2)]	**$0.71**	$1.67
Cash flow from operating activities before working capital and other adjustments	**122,016**	157,689
Cash flow from operating activities before working capital and other adjustments per share, basic and diluted[(2)]	**$3.50**	$4.40
Dividends paid	**20,659**	20,065
Weighted average common shares outstanding[(2)(3)]	**34,870,893**	35,825,820

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

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

Comparable IFRS Financial Information[(1)]

($ thousands, except per share information)	Year ended December 31, **2020**	2019
Cash flow from operating activities	**139,250**	113,406
Cash flow from operating activities per share, basic and diluted[(2)]	**$3.99**	$3.17

(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.

2020 Annual Operational Highlights and COVID-19 Response

Badger began 2020 with the successful implementation of its multi-year new Enterprise Resource Planning system ("ERP"). In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus ("COVID-19"). In response to the COVID-19 pandemic, Badger established a COVID-19 task force, responsible for overseeing, supporting and directing the Company's business continuity actions amidst the outbreak of the virus. By mid-March, the Company began sharing its pandemic response plan with its customers and business partners. The Company's response to COVID-19 reflects its focus on health and safety for employees and customers. Throughout the pandemic, as Badger provided essential services to North America's critical infrastructure, the Company continued to provide customers with safe and reliable non-destructive excavation services. Badger implemented additional safety policies, operating cost controls and capital spending reductions to mitigate business uncertainty and the effect that the virus-related economic slowdown had on the Company.

Late in the first quarter, and throughout the remainder of the year, Badger's operations were impacted by an overall slowdown in economic activity, which included economic shutdowns in most markets across North America. Customer activity levels continued to be suppressed through the second, third and fourth quarters as compared to the prior year due to the continued economic uncertainty and slower economic activity resulting from COVID-19.

In the second quarter and to minimize the financial impact of COVID-19 on the business, the Company completed a number of cost reduction initiatives such as temporary and permanent staffing reductions and reductions in compensation, including for Badger's senior executives and the Board of Directors. In addition, the Company participated in government wage and rent assistance programs to partially offset the financial impact that COVID-19 had on the reduction in revenue. See "COVID-19 Related Government Assistance Summary" for details.

In April 2020, Badger curtailed the production of new hydrovacs at the Company's manufacturing facility. This allowed the Company to further focus its efforts on relocating its fleet across the entire branch network to optimize asset utilization and shareholder capital.

On May 7, 2020, the Company entered into a one year supplemental $100.0 million credit facility available for general corporate purposes, providing additional liquidity and financial flexibility should it be required. Throughout 2020 and as at December 31, 2020, there were no amounts drawn on the supplemental credit facility and the Company remained well within all financial covenants associated with all lending arrangements. At the onset of COVID-19, the Company suspended its purchases of shares for cancellation under its Normal Course Issuer Bid, which expired in normal course on May 20, 2020.

In the fourth quarter, a number of markets experienced the second wave of COVID-19 related shutdowns and extended holiday related jobsite shutdowns, both of which slowed customer activity levels compared to the prior year. Actual results achieved in 2020, including during the peaks of COVID-19 and weather-related events, have reinforced the Company's ability to remain profitable across a range of market conditions.

The Company is seeing early indications of market recovery, which is expected to coincide with the 2021 summer construction season ramp-up. In anticipation of this recovery, Badger began hiring and training operators, sales and operations staff in the fourth quarter. Positioning the business ahead of revenue is inherent in the seasonal nature of Badger's business as the operator onboarding and training process takes two to three months and trained operators are needed before activity levels increase. Sales and operations support staff are critical to support operations and to drive further revenue growth.

During the Company's Investor Day in December 2020, Badger outlined its significant long-term growth opportunities to safely build and maintain North America's critical infrastructure. This is particularly evident in its U.S. markets, from both new and existing customers across its geographic and end use market segments.

At this time, it is uncertain how long the impacts of COVID-19 will affect the North American economy; however, there are early signs of economic recovery and the Company expects to take advantage of growth in the business as it emerges. See "Business Outlook and Strategic Milestones" below, for additional details on the Company's long-term growth potential for non-destructive excavation services in North America.

Business Outlook and Strategic Milestones

Badger is positioning the business to take advantage of an expected strong market recovery in 2021 from the COVID-19 pandemic and to prepare for the traditional summer construction season. Badger began hiring and training operators, sales people and operations staff in the fourth quarter of 2020 and has continued this activity in the first quarter of 2021. Also commencing in the fourth quarter of 2020 and continuing in 2021, Badger has made investments to enhance its organizational design and management structure.

Positioning operations ahead of revenue growth is inherent in the seasonal nature of Badger's business because the operator onboarding and training process takes two to three months and trained operators are required to be in place before activity levels increase. Sales and operations staff are required to support operations and to drive future growth. Badger is preparing for an anticipated increase in customer activity levels due to the timing of a potential strong market recovery and the typical ramp-up in the summer construction season.

As the first quarter of 2021 has progressed, the Company's revenue run rate has increased compared to rates earlier in the quarter, as 2021 activity was slow to start due to extended jobsite holiday shutdowns and severe winter storms. Bidding activity has also increased as the quarter has progressed, which historically has benefitted future months. Recent 2021 storm activity has highlighted the potential future opportunity for Badger which would result from the need for infrastructure strengthening.

Badger's fleet is well positioned to take advantage of market recovery and the 2021 construction season. As reviewed at Badger's December 4th Investor Day, the Company's current fleet size can support annual revenue levels of approximately $700 million.

The Company has taken advantage of the 2020 production slowdown to reconfigure process flows at its Red Deer, Alberta plant. These flow changes combined with changes in warehousing and upgrading parts storage are being implemented and are expected to increase the plant's production capacity to at least 350 units per year. This compares to the historical peak production of 221 units in 2014. Badger is pleased with this progress, which positions the Company to support continued growth as the current fleet utilization improves.

Building on successes in 2020, Badger is looking toward the future. Badger continues to see significant, long-term growth opportunities in servicing North America's key underground infrastructure with non-destructive excavation solutions. Badger continues to strive to achieve its 2025 strategic milestones which are:

- Doubling the U.S. operation's revenue from fiscal 2020 over the next 3 to 5 years;
- Targeting annualized Adjusted EBITDA growth of 15% on average from fiscal 2020 over the next 3 to 5 years;
- Targeting annualized Adjusted EBITDA margins of 28% to 29%; and
- Targeting revenue per truck per month over $30,000 (mixed currency).

Badger believes that these strategic milestones are achievable and that the fundamental, long-term growth opportunities for Badger in the non-destructive excavation market remain intact.

Business Restructuring Activities

In 2020, Badger executed a number of business restructuring and related cost reduction activities as part of its long term strategic initiatives to improve business processes, operating margins, profitability and long term growth profile. The business restructuring activities involved a combination of staffing reductions, combined with internal business improvement initiatives following the implementation of the Company's new enterprise resource planning system ("ERP"), referred to as the "Common Business Platform", including the formation of a shared services center located at Badger's U.S. administrative center in Brownsburg, Indiana. Non-recurring costs associated with business restructuring activities in the amount of $6.3 million were incurred in the second quarter of 2020.

Badger is pleased with the results of its business restructuring activities as the completion of these activities had a positive impact on 2020 second and third quarter margins. Over the past several years, significant investments have been made in a new ERP system and on expanding internal capabilities in human resources, recruitment and training, business development, fleet, information technology and health and safety functions. Investments in these functions were essential to support future increases in activity levels.

COVID-19 Related Government Assistance Summary

The Company's results include the benefit of its participation in the Canada Emergency Wage Subsidy program and Canada Emergency Rent Subsidy, which has been made available to eligible Canadian businesses that have been affected by the COVID-19 pandemic.

For the three months ended December 31, 2020, the Company's financial results include COVID-19 related government assistance benefits of $1.2 million included in direct costs and $0.1 million included in G&A.

For the year ended December 31, 2020, the Company's financial results include the following non-recurring items related to business restructuring and government programs.

($ thousands)	Direct costs	G&A	**Total Non-recurring Items Included in Adjusted EBITDA**	Non-cash Impairments[(1)]	**Total**
General business restructuring	1,594	2,706	**4,300**	563	**4,863**
Exit Alberta-based oil field services business	316	-	**316**	1,140	**1,456**
Total business restructuring costs	**1,910**	**2,706**	**4,616**	**1,703**	**6,319**
COVID-19 related government assistance	(7,815)	(812)	**(8,627)**	-	**(8,627)**
Total net non-recurring expense (benefit)	**(5,905)**	**1,894**	**(4,011)**	**1,703**	**(2,308)**

(1) Non-cash impairments of $1.7 million have been included as a component of: Loss (gain) on sale and impairment of property, plant and equipment in the Company's audited Consolidated Financial Statements for year ended December 31, 2020.

Management has considered the impact of COVID-19 on significant accounting judgements, estimates and assumptions used in the preparation of the audited Consolidated Financial Statements and did not identify any material changes in the current year. The duration of the pandemic and its impact on the Company's financial performance and position is an area of estimation uncertainty and judgement, which is constantly monitored and reflected in management's estimates.

Results of Operations for the Year Ended December 31, 2020

The Company generates a significant portion of its revenue in U.S. dollars, but presents its results in Canadian dollars. Therefore, year to year variances in revenue and expenses in local currency are impacted by change in the average exchange rate upon conversion into Badger's presentation currency. The weighted average foreign currency rate used in the translation of U.S. to Canadian dollars was CDN$1.34 to US$1.00, compared to CDN$1.33 to US$1.00 in the prior year.

Revenue

Revenue was $558.6 million or 85% of the $654.3 million in revenue generated during the prior year.

- Revenue in the U.S. operations was US$332.5 million or 86% of the US$386.3 million revenue generated in the prior year.
    - U.S. revenue and underlying activity levels varied regionally due largely to the variability in the impact of COVID-19 on both general economic and construction activity levels and the degree to which governments responded and implemented restrictions to control the spread of COVID-19. Revenue in the U.S. operations was also negatively impacted by reduced oil and gas customer demand in certain U.S. markets.
    - Hydrovac customer rates in the U.S. operations were consistent with the prior year across the majority of markets.
- Revenue in the Canadian operations was $112.7 million or 79% of the $141.8 million revenue generated in the prior year.
    - Canadian revenue and underlying activity levels were impacted by a combination of the impact of COVID-19 on the general Canadian economy and reduced oil and gas customer demand in Western Canada.
    - Hydrovac customer rates in the Canadian operations were consistent with the prior year across the majority of markets.
- Other services revenue was $26.8 million for the year, which was consistent with the $26.7 million generated in the prior year. Other services revenue was positively impacted by an increase in customer demand for non-hydrovac related service lines, particularly in Badger's U.S. operations, offset in part by the exiting of the Company's Alberta-based oil field services business in the second quarter of 2020.

Consolidated RPT for the year was $25,484 compared to $32,442 in 2019. RPT in the U.S. operations was US$27,512, compared to US$34,504 in the prior year. RPT in Canadian operations was $20,340, compared to $27,248 in the prior year. The reduction in RPT in both the U.S. and Canadian operations was due to reduced customer activity resulting from the impact of COVID-19 and the ongoing slowdown in oil and gas specific activity levels.

RPT as compared to the prior year was also impacted by growth in the hydrovac fleet over the trailing twelve months. As at December 31, 2020, Badger had 1,392 hydrovacs in its fleet compared to 1,364 as at December 31, 2019.

Badger continues to focus on optimizing its fleet in response to rapidly changing economic activity brought on by COVID-19. The Company is uniquely positioned to respond to changes in regional customer service requirements due to its large hydrovac fleet and extensive branch network. New units and fleet retirements are closely monitored to ensure Badger is optimizing fleet utilization and shareholder capital in an accretive manner.

Direct Costs

Direct costs were $394.3 million or 70.6% of revenue compared to $453.3 million or 69.3% of revenue in the prior year.

Labour related costs as a percentage of revenue were modestly higher than the prior year as a result of Badger recruiting and training operators, sales and operations staff in late 2020 in anticipation of market recovery and the seasonal construction volume increase, with these expenses required to be incurred ahead of revenue. Badger actively manages its operator and non-operator labour related costs, balancing the need for trained operators in advance of demand. Incurring expenses ahead of revenue is inherent in the seasonal nature of Badger's business model as the operator onboarding and training process takes two to three months and trained operators are needed before activity levels increase. Sales and operations support staff are critical to support operations and to drive further revenue growth.

Offsetting higher general labour costs was a reduction in short-term incentive plan costs due primarily to the reduction of Adjusted EBITDA and RPT which are core drivers of the Company's incentive plan programs.

Costs related to maintenance and repairs were higher as a percentage of revenue due to preventative maintenance being performed during the slower activity levels experienced in 2020 as a result of COVID-19. Insurance related costs as a percentage of revenue were modestly higher than the prior year as a result of increased premiums due to the general insurance market. Costs related to fuel were lower as a percentage of revenue due to a decrease in average diesel costs across certain markets.

Direct costs also benefitted from $7.8 million in COVID-19 related government assistance offset in part by $1.9 million in restructuring expenses. See "Business Restructuring Activities" and "COVID-19 Related Government Assistance Summary" for further details on non-recurring items included in direct costs.

Bad debt expense, which is included in direct costs, was $3.9 million, compared to $0.6 million in 2019. Bad debt expense in the current year was $3.3 million higher than the prior year due to the Company selling a receivable in 2019 related to the Chapter 11 bankruptcy filing for a large utility customer, resulting in a recovery of approximately 90% of the gross value of the previously provided for receivables.

Gross Profit

Gross profit was $164.3 million resulting in a gross profit margin of 29.4% (28.4% excluding COVID-19 related government assistance and restructuring expenses) compared to $201.0 million and 30.7% in the prior year. Gross profit margin in the U.S. operations was 28.4% compared to 31.2% for the prior year. Gross profit margin in the Canadian operations was 33.5% compared to 29.2% in the prior year.

Gross profit margins in the Canadian operations benefitted from $7.8 million in COVID-19 related government assistance. Gross profit margin in the Canadian operations would have been 26.6% excluding COVID-19 related government assistance benefits. Average hydrovac customer rates were consistent across the majority of the U.S. and Canadian markets compared to the prior year.

General and Administrative Expenses

G&A expense was $41.5 million ($39.6 million excluding COVID-19 related government assistance benefits and business restructuring expenses) or 7.4% of revenue compared to $42.6 million or 6.5% of revenue in the prior year. Included in G&A expense for the year is $2.7 million in restructuring expenses, offset in part by $0.8 million benefit from COVID-19 related government assistance programs.

G&A expense for the year was positively impacted by the implementation of cost reduction initiatives completed in the second quarter of 2020, the absence of certain ERP expenditures incurred in the prior year and the benefit of COVID-19 related government assistance.

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

Depreciation and amortization expense was $72.8 million compared to $63.5 million in the prior year. The increase in depreciation expense is the result of capital expenditures incurred during the previous four quarters and the amortization of the Company's ERP.

Share-based Compensation Expense

Share-based compensation expense was $8.9 million compared to $11.0 million in the prior year. The decrease in the expense is due to the decrease in the market value of Badger's common shares during the year compared to the prior year's increase in market value. 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 and Impairment of Property, Plant and Equipment

Loss on sale and impairment of property, plant and equipment was $1.8 million compared to $0.1 million in the prior year. The change compared to the prior year is due primarily to $1.7 million in non-cash asset impairments recognized in the current year related to the Company's wind up of its Alberta based oil field services business and non-cash impairments relating to business restructuring.

Gains or losses on the sale of property, plant and equipment are the result of the proceeds on the disposal of general equipment and hydrovac units retired and disposed of, being greater than or less than the residual book value. 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 period.

Finance Cost

Finance costs, which consist primarily of interest on the Company's senior secured notes, syndicated revolving credit facility, standby fees on the syndicated revolving credit facility and finance costs associated with lease liabilities, were $8.3 million, $1.4 million higher than the prior year of $6.9 million. The increase in finance costs was due to higher credit facility borrowings and Badger's decision to hold a higher level of cash reserve compared to the prior year due to the economic uncertainty due to COVID-19.

As at December 31, 2020, the Company's debt obligations, excluding the impact of operating leases and outstanding letters of credit, consisted of $68.8 million drawn on the Company's syndicated revolving credit facility, US$50.0 million of senior secured notes and $15.2 million in lease liabilities.

Income Tax

Total income tax expense was $8.4 million compared to $16.5 million in the prior year. Total income tax expense included $8.1 million in current income tax and $0.3 million in deferred income tax. Total income tax expense in 2019 included $2.7 million in current income tax expense and $13.8 million in deferred income tax expense. Total income tax expense was $8.1 million lower than the prior year due to a reduction in the number of hydrovacs put into service in 2020 as compared to the prior year and the changes in taxable income.

Current income tax expense of $8.1 million is comprised of a $10.2 million U.S. current income tax expense (2019 – $6.3 million expense) and a $2.1 million Canadian current income tax recovery (2019 – $3.6 million expense). The change in U.S. and Canadian current income taxes is due primarily to changes in underlying taxable income.

Deferred income tax expense was $0.3 million compared to $13.8 million in the prior year. The change in deferred income tax expense is due primarily to a reduction in the number of hydrovacs put into service in the current year.

Net Profit

Net profit was $24.7 million compared to $59.7 million in the prior year. Net profit was impacted by lower revenue and gross profit, higher depreciation and amortization expense, impairment on property, plant and equipment relating to the Company's wind up of its Alberta based oil field services business and non-cash impairments relating to business restructuring, higher finance costs offset in part by reduced income taxes and reduced G&A expenses, all of which is 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 an OCI loss of $4.1 million compared to OCI loss of $14.1 million in the prior year. The change in OCI is the result of the U.S. dollar weakening relative to the Canadian dollar throughout the year. OCI does not impact Badger's cash flow from operations or Adjusted EBITDA.

Liquidity and Dividends

Cash flow from operating activities was $139.3 million compared to $113.4 million in the prior year. The increase in cash flow from operating activities resulted from an increase in non-cash working capital requirements due to the Company's ongoing efforts to improve the timely collection of accounts receivables. See the consolidated statement of cash flows contained within Badger's 2020 audited Consolidated Financial Statements for additional details. Cash flow from operating activities before non-cash working capital and other adjustments was $122.0 million, $35.7 million lower than the prior year of $157.7 million. The decrease in cash flow from operating activities before non-cash working capital and other adjustments was due primarily to lower Adjusted EBITDA.

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 the operations, the timing of the collection of receivables and the payment of payables, the timing of capital expenditures and the impact of fluctuations in foreign currency exchange rates. Working capital was $70.5 million as at December 31, 2020, compared to

$87.4 million as at December 31, 2019. The change in working capital as at December 31, 2020 resulted from a decrease in trade accounts receivables and income tax receivables combined with reduced trade payables, offset by an increase in cash and cash equivalents. The increase in cash and cash equivalents was due to the Company's plan to maintain modestly higher cash on hand in light of the potential volatility in financial markets as a result of the COVID-19 pandemic. As at March 11, 2021, the Company has not incurred, nor does it currently anticipate, any limitations in its ability to access liquidity under its various credit facilities.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totaled $148.1 million as at December 31, 2020, $34.1 million lower than the balance as at December 31, 2019, of $182.2 million. The decrease in trade receivables and other receivables is due to lower activity levels compared to the prior year, improved processes, systems, and programs implemented in 2020 and the ongoing efforts to improve the timely collection of trade receivables during the year. Included in total trade and other receivables at December 31, 2020, was $3.1 million in accrued revenue compared to $3.0 million at December 31, 2019. Accrued revenue at December 31, 2020, relates to services performed prior to December 31, 2020; accrued revenue is recognized when it meets the requirements of Badger's revenue recognition policy.

As at December 31, 2020, 77% of Badger's trade receivables were aged 90 days or less compared to 80% at December 31, 2019. The Company continues to actively manage its receivables portfolio and drive further improvements in all aspects of the cash collection cycle. The implementation of supplemental credit and collections processes throughout the first half of 2020, including the overall management of the collections function, has resulted in improved accounts receivable collection metrics. Effective October 1, 2020, Badger executed an agreement with Export Development Canada ("EDC"), a Government of Canada Crown Corporation, to insure Badger's trade receivables portfolio. The execution of this policy along with the improved collections processes put in place in 2020, is expected to improve Badger's collection risk for its entire trade receivables portfolio.

The Company uses its cash and cash equivalents for the purchase and manufacture of property, plant and equipment, to fund day-to-day operations, pay dividends and for general corporate purposes. Badger assesses its need for general liquidity based on its cash flow from operating activities combined with the financial capacity available under its various credit facilities. Badger's access to liquidity, through a combination of cash flows from operating activities and its various credit facilities, 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 various credit facilities.

Badger is restricted from declaring dividends if it is in breach of the covenants governing its credit facilities 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 various credit facilities as well as declare dividends. The Company does not maintain a credit rating.

Capital Resources

Investing

Badger invested $59.4 million in total capital expenditures during the year, compared to $114.9 million in the prior year. Capital expenditures during the year were primarily related to the production of hydrovacs and specialty units.

As disclosed on April 1, 2020, Badger reduced production of hydrovacs in response to reduced customer activity levels due to COVID-19. Hydrovacs that were in production prior to April 1, 2020 were completed in the normal course. The Company continued to manufacture the new generation hydrovacs and specialty units throughout the remainder of 2020. In 2021, Badger expects to manufacture between 20 to 30 hydrovacs, while continuing to manufacture specialty units and retire 60 to 70 units. Badger continues to focus on optimizing its current fleet in response to rapidly changing economic activity brought on by COVID-19. The Company is uniquely positioned to be able to respond to changes in regional customer service requirements due to its large hydrovac fleet and extensive branch network.

For the year ended 2020, Badger completed 85 hydrovacs, compared to 199 hydrovacs in 2019.

Capital Expenditures

($ thousands)	Twelve months ended December 31,	
	2020	2019
Hydrovac completed units and work-in-progress[1][2]	**38,614**	98,830
Other vehicles and trailers	**11,915**	7,551
Buildings[3]	**6,230**	148
Other	**979**	3,414
Total expenditures of property, plant and equipment	**57,738**	109,943
Upfront payments for right-of-use assets[4]	**1,660**	4,913
Total capital expenditures	**59,398**	114,856

(1) Total work-in-progress ("WIP"), including chassis and WIP on other vehicles, recognized on Badger's balance sheet as at December 31, 2020, and 2019, was $20.4 million and $22.4 million, respectively. The net change in WIP for hydrovacs for the year ended December 31, 2020, was a net inflow of $3.8 million and for the year ended December 31, 2019, was a net outflow of $10.1 million. The net change in WIP is included in hydrovac completed units and work-in-progress in the above table.

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

(3) Additions to buildings includes Badger's U.S. administrative center in Brownsburg, Indiana.

(4) Upfront payments for right-of-use assets relate to the Company's leasing of light-duty trucks.

	Completed Hydrovacs	Average Manufacturing Costs
2020	**85**	**$447,000**
2019	199	$419,000
2018	191	$396,000
2017	157	$399,000
2016 [1]	55	$375,000
2015	63	$390,000
2014	221	$351,000
2013	175	$338,000

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

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 2020, Badger's average manufacturing cost was $447,000 compared to $419,000 in 2019. The increase in the average manufacturing cost in 2020 compared to the 2019 was largely due to the lower volume of hydrovacs manufactured in 2020 versus 2019; as well as, modest cost increases relating to the changeover of manufacturing to a new generation hydrovac design.

The cost to build a hydrovac will fluctuate on an annual basis due to factors such as: the number of hydrovac units built; 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.

Financing

Syndicated Revolving Credit Facility

The Company has a $300.0 million syndicated revolving credit facility with a syndicate of five lenders. The $300.0 million syndicated revolving credit facility allows for borrowings in either Canadian or U.S. dollars, providing Badger with the administrative flexibility to borrow in the functional currency in both its Canadian and the U.S. operations. The syndicated revolving credit facility, which has a five-year term, matures on September 30, 2024. Badger has the flexibility to expand the facility, subject to approval by the lenders, by an additional $150.0 million Canadian dollars. Badger maintains the syndicated revolving credit facility for general corporate and liquidity purposes, in addition to financing requirements, if any, related to Badger's capital expenditure requirements. The extension of the syndicated revolving credit facility, which was completed on September 30, 2019, had no impact on the Company's existing senior secured notes, including the respective financial covenant ratios and maturity dates, all of which is detailed below.

The syndicated revolving 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 175 basis points. The BA/LIBOR tiers range from 120 to 300 basis points. The standby fee tiers range between 24 and 60 basis points. All of the tiers are based on the Company's Total Debt to Compliance EBITDA ratio. Standby fees are expensed as incurred.

The syndicated revolving credit facility is collateralized by a general security interest over the Company's assets, property and undertaking, present and future. The facility requires that the Company maintain a Total Debt to Compliance EBITDA ratio of no greater than 4.0:1. See "Compliance" for a summary of certain covenants.

As at December 31, 2020, the Company had $68.8 million outstanding on its syndicated revolving credit facility (December 31, 2019 – $67.2 million) and had issued letters of credit of $4.7 million (December 31, 2019 – $4.4 million). The outstanding letters of credit, which reduce the amount of available credit under the facility, support the U.S. insurance program and certain other performance bonds.

Supplemental Credit Facility

On May 7, 2020, the Company entered into a supplemental $100.0 million credit facility with the same group of lenders as its existing syndicated revolving credit facility. The supplemental credit facility has a term of one year, expiring on May 6, 2021. The facility is available for general corporate purposes, providing the Company with additional liquidity and financial flexibility should it be required. Key conditions of the facility, including financial covenants and pricing, are consistent with the Company's existing syndicated revolving credit facility.

As at December 31, 2020, the Company had no amounts outstanding on its supplemental credit facility.

As at December 31, 2020, the Company has approximately $17.3 million of cash and cash equivalents and has access to approximately $326 million of borrowing capacity under its committed credit 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 with an original principal of US$75.0 million. The notes, which rank pari passu with the Credit Facility and the Supplemental Credit Facility, have a current principal amount outstanding of US$50.0 million ($63.7 million Canadian equivalent as at December 31, 2020) and an interest rate of 4.83% per annum and mature on January 24, 2022. A repayment of US$25.0 million, as required under the terms of the notes, was completed on January 24, 2020, utilizing the Company's syndicated revolving credit facility. The remaining amortizing principal repayments of US$25.0 million are due under the notes on January 24, 2021, and January 24, 2022. Interest is paid semi-annually in arrears. The Canadian dollar equivalent on January 24, 2014, was $82.9 million.

The senior secured notes are collateralized by a general security interest over the Company's assets, property and undertaking, present and future. The senior secured notes require that the Company maintain a Total Debt to Compliance EBITDA ratio of no greater than 2.75:1.

Lease Liability

As at December 31, 2020, the Company had $15.2 million in lease liabilities (December 31, 2019 – $17.2 million) related primarily to operating and administrative building lease arrangements. There is no lease liability associated with the Company's light-duty vehicle leases as the full consideration of the underlying lease is paid at the inception of the lease.

Compliance

Under the terms of the syndicated revolving 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 are detailed in the summary below.

Select Financial covenants [(1)(2)(3)(4)(5)]	**December 31, 2020**	December 31, 2019	Threshold
Total Debt to Compliance EBITDA Credit Facility	**1.2:1**	1.2:1	4.00:1 max
Total Debt to Compliance EBITDA Senior Secured Notes	**1.2:1**	1.2:1	2.75:1 max
Interest Coverage Ratio Credit Facility	**14.1:1**	21.6:1	3.00:1 min
Interest Coverage Ratio Senior Secured Notes	**14.0:1**	21.2:1	3.00:1 min
Tangible Net Worth	**$277.4 million**	$275.7 million	$205.2 million

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

(2) Total Debt to Compliance EBITDA Credit Facility as at December 31, 2020, calculated as $135.1 million in Total Debt divided by $117.3 million of Compliance EBITDA and for December 31, 2019, calculated as $177.3 million in Total Debt divided by $149.1 million of Compliance EBITDA.

(3) Total Debt to Compliance EBITDA senior secured notes as at December 31, 2020, calculated as $142.4 million in Total Debt divided by $116.0 million of Compliance EBITDA and for December 31, 2019, calculated as $177.3 million in Funded Debt divided by $146.6 million of Compliance EBITDA.

(4) The Interest Coverage Ratio Credit Facility is calculated as Compliance EBITDA divided by interest expense. For the twelve months ended December 31, 2020, calculated as $117.3 million in Compliance EBITDA divided by $8.3 million in interest expense and for the twelve months ended December 31, 2019, calculated as $149.1 million in Compliance EBITDA divided by $6.9 million in interest expense. Interest expense is calculated in accordance with IFRS on a trailing 12-month basis.

(5) The Interest Coverage Ratio senior secured notes is calculated as Compliance EBITDA divided by interest expense. For the twelve months ended December 31, 2020, calculated as $116.0 million in Compliance EBITDA divided by $8.3 million in interest expense and for the twelve months ended December 31, 2019, calculated as $146.6 million in Compliance EBITDA divided by $6.9 million in interest expense. Interest expense is calculated in accordance with IFRS on a trailing 12-month basis.

Throughout the year and as at December 31, 2020, the Company was in compliance with all covenants. For additional details on the syndicated revolving credit facility and the senior secured notes, including the financial and non-financial covenants, see the Company's 2020 audited Consolidated Financial Statements and the Company's 2020 Annual Information Form.

Off-Balance Sheet Arrangements

As at December 31, 2020, and December 31, 2019, the Company did not have any material off-balance sheet arrangements.

Related Parties

Refer to the Company's 2020 audited Consolidated Financial Statements for disclosure related to related parties.

Share Capital

As at December 31, 2020, the number of common shares outstanding was 34,853,838 (December 31, 2019 – 34,933,738). The weighted average common shares outstanding for the year ended December 31, 2020, was 34,870,893 (December 31, 2019 – 35,825,820).

As at March 11, 2021, the number of common shares outstanding was 34,853,838. Badger does not currently have any material financial instruments which can be converted into additional common shares.

Refer to the Company's audited Consolidated Financial Statements for the year ended December 31, 2020, and "Normal Course Issuer Bid" for additional details on changes to share capital.

Normal Course Issuer Bid

On May 13, 2019, the Board of Directors approved the Company to enter into a NCIB program upon the expiration of the previous NCIB on May 14, 2019. On May 16, 2019, the Toronto Stock Exchange accepted the notice filed by the Company to implement an updated NCIB program. Pursuant to the updated NCIB program, the Company was permitted to purchase for cancellation up to 2,000,000 common shares during the period which commenced on May 21, 2019, and ended on May 20, 2020. The Company's NCIB program expired in the normal course on May 20, 2020, and was not renewed at that time.

During 2020, prior to the onset of the COVID-19 pandemic, the Company purchased and cancelled 69,900 common shares at a weighted average price per share of $29.72.

On a cumulative basis, since May 21, 2019, to the period ended May 20, 2020, the Company purchased and cancelled 1,025,600 common shares at a weighted average price per share of $41.40 under its recently expired NCIB. On a cumulative basis, since the fourth quarter of 2018, to the period ended December 31, 2020, the Company has purchased and cancelled 2,287,668 common shares at a weighted average price per share of $36.61.

On March 11, 2021, the Board of Directors approved the Company to pursue an NCIB program of up to 1,500,000 common shares. The NCIB program is subject to normal course regulatory approvals by the Toronto Stock Exchange.

The Company continues to focus on prudent capital allocation to drive long-term shareholder value and believes that from time-to-time, the market price of its common shares may not fully reflect the underlying value of its business. Purchases of common shares for cancellation under the NCIB may provide an opportunity to enhance long-term total shareholder return. Badger will not repurchase common shares under its NCIB while receiving COVID-19 related government assistance.

Contractual Obligations

The Company anticipates using its cash and cash equivalents, future operating cash flows and the financial capacity available under its syndicated revolving credit facility to fund its contractual obligations. The Company had the following contractual obligations and commitments at December 31, 2020:

($ thousands)	2021	2022	2023	2024	2025	Thereafter	Total
Operating leases[(1)]	791	717	524	511	378	35	**2,956**
Service contract[(2)]	4,294	4,410	3,053	-	-	-	**11,757**
Senior secured note interest[(3)]	2,306	769	-	-	-	-	**3,075**
Purchase commitments[(4)]	5,555	-	-	-	-	-	**5,555**
Total	**12,946**	**5,896**	**3,577**	**511**	**378**	**35**	**23,343**

(1) Operating leases include building and office space.

(2) Contract with third party service provider for information technology services related to the ERP.

(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, 2020 closing U.S. to Canadian foreign currency exchange rate.

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

Selected Annual Financial Information [1]

($ thousands, except per share amounts)	**2020**	2019	2018
Revenue	**558,627**	654,282	615,442
Net profit	**24,749**	59,732	67,817
Net profit per share, basic and diluted	**$0.71**	$1.67	$1.83
Total assets	**622,885**	668,962	603,890
Total non-current liabilities	**176,184**	207,218	155,724
Dividends paid	**20,659**	20,065	18,996
Dividends per share	**$0.60**	$0.56	$0.51

[1] Selected annual financial information in the above table as per the audited Consolidated Financial Statements prepared in accordance with IFRS.

During the years in the above table, financial results and related financial information were impacted by the following factors and trends:

- General changes in economic growth and overall macro-economic conditions in both the U.S. and Canada;
- 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 typically resulted in an increase in revenues, gross dollar direct costs, general and administrative expenses and Adjusted EBITDA;
- The impact of COVID-19, effective March 2020, related to customer demand and general economic activity levels, including the benefits and costs associated with business restructuring and cost reduction initiatives executed in the first and second quarters of 2020, and the curtailment of hydrovac truck production;
- Reduced customer activity levels beginning in March 2020 as a result of COVID-19, resulting in the curtailment of the production of hydrovacs at Badger's Red Deer manufacturing facility in the second quarter of 2020;
- The impact of the COVID-19 pandemic on both the U.S. and Canadian operations, which resulted in a broad-based slowdown of the North American economy. Revenue and underlying customer activity levels varied by region, largely due to the variability in the impact of COVID-19 on economic and construction activity levels;
- The 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 slowdown in certain northern markets during the winter construction season;
- Impact of unusual and/or non-typical weather conditions such as natural disasters, general precipitation levels or extreme winter weather conditions which may impact the timing and level of customer demand;
- 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;
- The execution and implementation of Badger's Common Business Platform/ERP project; and
- Updated U.S. income tax legislation, effective December 22, 2017, which had a one-time impact on Badger's 2018 current income tax expense.

Financial Highlights

($ thousands, except revenue per truck per month ("RPT"), per share and share information)	Three months ended December 31, 2020	2019
Revenue:		
Hydrovac service revenue	**123,636**	155,494
Other revenue	**6,976**	7,221
Total revenue	**130,612**	162,715
RPT - Consolidated (mixed currency)[1]	**23,904**	31,075
RPT - U.S. (U.S. dollars)[1]	**25,877**	32,893
RPT - Canada (Canadian dollars)[1]	**18,997**	26,408
Adjusted EBITDA[1]	**22,005**	35,839
Adjusted EBITDA per share, basic and diluted[1][2]	**$0.63**	$1.02
Adjusted EBITDA margin[1]	**16.8%**	22.0%
Profit before income tax	**2,132**	17,814
Net profit	**1,827**	15,913
Net profit per share, basic and diluted[2]	**$0.05**	$0.45
Cash flow from operating activities before working capital and other adjustments	**22,024**	35,596
Cash flow from operating activities before working capital and other adjustments per share, basic and diluted[2]	**$0.63**	$1.02
Dividends paid	**5,229**	5,001
Weighted average common shares outstanding[2][3]	**34,853,838**	35,060,260

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

Comparable IFRS Financial Information[1]

($ thousands, except per share information)	Three months ended December 31, 2020	2019
Cash flow from operating activities	**32,033**	42,445
Cash flow from operating activities per share, basic and diluted[2]	**$0.92**	$1.21

(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.

2020 Fourth Quarter Financial and Operational Highlights

- Revenue was $130.6 million or approximately 80% of the revenue realized in the prior year's comparative quarter, which continued to be suppressed by slower economic activity caused by COVID-19 and jobsites being closed for longer periods of time around the holidays compared to prior years.

- Gross profit margin was 24.1% (23.2% excluding $1.2 million in COVID-19 related government assistance) compared to 29.3% in the prior year's comparative quarter.

- G&A expenses were $9.5 million ($9.6 million excluding $0.1 million in COVID-19 related government assistance) compared to $11.8 million in the same period of 2019.

- Adjusted EBITDA margin was 16.8% (15.8% excluding $1.3 million in COVID-19 related government assistance) compared to 22.0% in the same period of 2019.

- RPT was $23,904 on a consolidated basis, 77% of the prior year of $31,075. RPT in the U.S. operations was US$25,877 compared to US$32,893 in the prior year and for the Canadian operations was $18,997 compared to $26,408 in the prior year.

Results of Operations for the Three Months Ended December 31, 2020

Revenue

Revenue was $130.6 million or 80% of the $162.7 million generated during the prior year's comparative quarter.

- Revenue in the U.S. operations was US$79.9 million or 83% of the US$96.6 million revenue generated in the prior year's comparative quarter.
    - U.S. revenue and underlying activity levels varied regionally due largely to the variability in the impact of COVID-19 on both general economic and construction specific activity levels and the degree to which governments responded and implemented restrictions to control the spread of COVID-19. Revenue in the U.S. operations was also negatively impacted by reduced oil and gas customer demand in certain U.S. markets.
    - Hydrovac customer rates in the U.S. operations were consistent with the prior year across the majority of markets.
    - U.S. revenue converted to Canadian dollars was $104.3 million compared to $127.5 million in the prior year. The weighted average foreign currency rate used in the translation of U.S. dollar revenues to Canadian was CDN$1.31 to US$1.00, compared to CDN$1.32 to US$1.00 in the prior year.
- Revenue in the Canadian operations was $26.3 million or 75% of the $35.2 million revenue generated in the prior year's comparative quarter.
    - Canadian revenue and underlying activity levels were impacted by a combination of the impact of COVID-19 on the general Canadian economy and reduced oil and gas customer demand in Western Canada.
    - Hydrovac customer rates in the Canadian operations were consistent with the prior year across the majority of markets.
- Other services revenue was $7.0 million for the quarter, which was consistent with the $7.2 million generated in the prior year. Other services revenue was positively impacted by an increase in customer demand for non-hydrovac related service lines, offset in part by the exiting of the Company's Alberta-based oil field services business in the second quarter of 2020.

Consolidated RPT for the fourth quarter of 2020 was $23,904 compared to $31,075 in 2019. RPT in the U.S. operations was US$25,877, compared to US$32,893 in the prior year. RPT in Canadian operations was $18,997, compared to $26,408 in the prior year. The reduction in RPT in both the U.S. and Canadian operations was due to reduced customer activity resulting from the impact of COVID-19 and the ongoing slowdown in oil and gas specific activity levels as noted above.

RPT as compared to the prior year was also impacted by growth in the hydrovac fleet over the trailing twelve months. As at December 31, 2020, Badger had 1,392 hydrovacs in its fleet compared to 1,364 as at December 31, 2019.

Badger continues to focus on optimizing its fleet in response to rapidly changing economic activity brought on by COVID-19. The Company is uniquely positioned to be able to respond to changes in regional customer service requirements due to its large hydrovac fleet and extensive branch network. New units and fleet retirements are closely monitored to ensure Badger is optimizing fleet utilization and shareholder capital in an accretive manner.

Direct Costs

Direct costs were $99.1 million or 75.9% of revenue, compared to $115.1 million or 70.7% of revenue in the prior year comparative quarter.

Labour related costs as a percentage of revenue were modestly higher than the prior year comparative quarter, as a result of Badger recruiting and training operators, sales and operations staff in anticipation of market recovery and the seasonal construction volume increase, with these expenses required to be incurred ahead of revenue. Badger actively manages its operator and non-operator labour related costs, balancing the need for trained operators in advance of demand. Incurring expenses ahead of revenue is inherent in the seasonal nature of Badger's business model as the operator onboarding and training process takes two to three months and trained operators are needed before activity levels increase. Sales and operations support staff are critical to support operations and to drive further revenue growth.

Offsetting higher general labour costs was a reduction in short-term incentive plan costs due primarily to the reduction of Adjusted EBITDA and RPT which are core drivers of the Company's incentive plan programs.

Costs related to maintenance and repairs were higher as a percentage of revenue due to preventative maintenance being performed during the slower activity levels experienced in the fourth quarter of 2020 as a result of COVID-19. Insurance related costs as a percentage of revenue were modestly higher than the prior year comparative quarter as a result of increased premiums due to the general insurance market. Costs related to fuel were lower as a percent of revenue due to a decrease in average diesel costs across certain markets.

Direct costs also benefitted from $1.2 million in COVID-19 related government assistance. See "Business Restructuring Activities" and "COVID-19 Related Government Assistance Summary" for further details on non-recurring items included in direct costs.

Bad debt expense, which is included in direct costs, was $0.9 million, compared to $1.3 million in the prior year comparative quarter. Bad debt expense as a percent of revenue remained consistent with the prior year comparative quarter.

Gross Profit

Gross profit was $31.5 million resulting in a gross profit margin of 24.1% compared to $47.6 million and 29.3% in the prior year. Gross profit margin in the U.S. operations was 23.0% compared to 29.7% for the prior year. Gross profit margin in the Canadian operations was 28.6% compared to 27.6% in the prior year.

Gross profit margins in the U.S. and Canadian operations were impacted by higher labour costs, primarily due to costs associated with the recruitment and training of new operators and the impact of reduced labour efficiency in a number of markets where revenue levels were impacted by COVID-19 related shutdowns. In addition, the Canadian gross profit margin benefitted from $1.2 million in COVID-19 related government assistance. Average hydrovac customer rates were consistent across the majority of the U.S. and Canadian markets compared to the prior year's comparative quarter.

General and Administrative Expenses
G&A expense was $9.5 million or 7.2% of revenue compared to $11.8 million or 7.3% of revenue in the prior year's comparative quarter. As previously disclosed, included in G&A expense for the quarter is $0.1 million benefit from COVID-19 related government assistance programs.

G&A expense for the quarter was positively impacted by the implementation of cost reduction initiatives completed in the second quarter of 2020 and the absence of certain ERP expenditures incurred in the prior year comparative quarter.

Depreciation and Amortization of Property, Plant and Equipment, Right-of-Use and Intangible Assets
Depreciation and amortization expense was $17.3 million, consistent with $17.3 million in the prior year comparative. Depreciation and amortization expense for the fourth quarter was impacted by capital expenditures incurred during the previous four quarters, offset by certain sales tax adjustments and related depreciation expense incurred during the year.

Share-based Compensation Expense
Share-based compensation expense was $2.3 million compared to a net recovery of $1.9 million in the prior year. The increase in the expense is due to the increase in the market value of Badger's common shares during the quarter. 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 and Impairment of Property, Plant and Equipment
Loss on sale and impairment of property, plant and equipment was $0.5 million compared to $0.4 million in the prior year comparative quarter.

Gains or losses on the sale of property, plant and equipment are the result of the proceeds on the disposal of general equipment and hydrovac units retired and disposed of, being greater than or less than the residual book value. 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 consist primarily of interest on the Company's senior secured notes, syndicated revolving credit facility, standby fees on the syndicated revolving credit facility and finance costs associated with lease liabilities, were $1.7 million, $0.3 million lower than the prior year of $2.0 million. The decrease in finance costs was due to lower overall debt obligations during the quarter as compared to the prior year.

As at December 31, 2020, the Company's debt obligations, excluding the impact of normal course operating leases and outstanding letters of credit, consisted of $68.8 million drawn on the Company's syndicated revolving credit facility, US$50.0 million of senior secured notes and $15.2 million in lease liabilities, all of which are further described herein.

Income Tax

Total income tax expense was $0.3 million compared to $1.9 million in the prior year. Total income tax expense included $2.2 million in current income tax and $1.9 million in deferred income tax recovery. Total income tax expense in 2019 included $1.1 million in current income tax recovery and $3.0 million in deferred income tax expense. Total income tax expense was $1.6 million lower than the prior year due to a reduction in the number of hydrovacs put into service in the period as compared to the prior year and the changes in taxable income.

Current income tax expense of $2.2 million is comprised of a $3.7 million U.S. current income tax expense (2019 – $0.5 million recovery) and a $1.5 million Canadian current income tax recovery (2019 – $0.6 million recovery). The change in U.S. and Canadian current income taxes is due primarily to changes in underlying taxable income.

Deferred income tax recovery was $1.9 million compared to an expense of $3.0 million in the prior year. The change in deferred income tax expense is due primarily to a reduction in the number of hydrovacs put into service in the current year quarter.

Net Profit

Net profit was $1.8 million compared to $15.9 million in the prior year. Net profit was impacted by lower revenue and gross profit, higher share-based plan expense, offset in part by reduced income taxes and lower G&A, all of which is 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 an OCI loss of $14.1 million compared to OCI of $8.1 million in the prior year. The change in OCI is the result of the U.S. dollar weakening relative to the Canadian dollar throughout the quarter. OCI does not impact Badger's cash flow from operations or Adjusted EBITDA.

Liquidity and Dividends

Cash flow from operating activities was $32.0 million compared to $42.4 million in the prior year. The decrease in cash flow from operating activities resulted primarily from lower Adjusted EBITDA offset in part by an increase in non-cash working capital due to the Company's ongoing efforts to improve the timely collection of accounts receivables. See the consolidated statement of cash flows contained within Badger's audited Consolidated Financial Statements for additional details. Cash flow from operating activities before non-cash working capital and other adjustments was $22.0 million, $13.6 million lower than the prior year of $35.6 million. The decrease in cash flow from operating activities before non-cash working capital and other adjustments was due primarily to lower Adjusted EBITDA.

Capital Resources

Investing

Badger invested $15.4 million in total capital expenditures, including light-duty trucks, for the fourth quarter of 2020, compared to $31.6 million in the prior year comparative quarter. The majority of capital expenditures during the fourth quarter of 2020 related to the production of specialty units and a small number of new generation hydrovacs.

Capital Expenditures

($ thousands)	Three months ended December 31,	
	2020	2019
Hydrovac completed units and work-in-progress [(1)] [(2)]	**5,661**	26,865
Other vehicles and trailers	**5,263**	3,149
Buildings[(3)]	**3,658**	148
Other	**27**	566
Total expenditures of property, plant and equipment	**14,609**	30,728
Upfront payments for right-of-use assets [(4)]	**744**	831
Total capital expenditures	**15,353**	31,559

(1) Total work-in-progress ("WIP"), including chassis and WIP on other vehicles, recognized on Badger's balance sheet as at December 31, 2020, and 2019, was $20.4 million and $22.4 million, respectively. The net change in WIP for the three months ended December 31, 2020, was a net outflow of $2.7 million, and for the three months ended December 31, 2019 was a net outflow of $3.3 million. The net change in WIP is included in hydrovac completed units and work-in-progress in the table above.

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

(3) Additions to buildings includes Badger's U.S. administrative center in Brownsburg, Indiana.

(4) Upfront payments for right-of-use assets relate to the Company's leasing of light-duty trucks.

Financial Instruments and Risk Management

Fair values

The Company's financial instruments recognized on the consolidated statements of financial position consist of cash and cash equivalents, trade and other receivables, income taxes receivable, trade and other payables, dividends payable, income taxes payable, borrowings under credit facility, current and long-term lease liabilities and current 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 and lease liabilities approximate fair value because these liabilities utilize floating and/or market based interest rates. The fair value of the Company's senior secured notes are disclosed in the audited Consolidated Financial Statements.

Credit risk

Credit risk arises where a financial loss would be experienced if a counterparty to a financial asset failed to meet its contractual obligations. The Company's credit risk exposure is primarily through its trade receivables which are subject to industry credit risks. Credit risks are mitigated by the Company's large and diversified customer base across the utility, petroleum and construction industries. The Company actively monitors the financial strength of its customer base through its credit process to minimize the risk of default on receivables. The Company has a due diligence process to approve credit for new and existing customers by assessing the creditworthiness of each customer. Before work is performed for the customer, its creditworthiness is assessed and a credit rating and maximum credit limit are assigned. Effective October 1, 2020, the Company executed an agreement with Export Development Canada ("EDC"), a Government of Canada Crown Corporation, to insure its trade receivables portfolio which further mitigates the Company's credit risk exposure.

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. Due to COVID-19, the Company entered into a one year supplemental $100.0 million credit facility available for general corporate purposes, providing additional liquidity and financial flexibility should it be required. Throughout 2020 and as at December 31, 2020, there were no amounts drawn on the supplemental credit facility and the Company remained well within all financial covenants associated with all lending arrangements.

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 or the London interbank offered rate and is dependent on the nature of the borrowing. Interest rates are subject to change. As at December 31, 2020, the Company had $68.8 million drawn on its syndicated revolving term credit facility which 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 issued fixed rate senior secured notes (US$50.0 million outstanding as at December 31, 2020) which fixes interest exposure on a portion of the Company's total debt obligations. See Badger's 2020 audited Consolidated Financial Statements for a hypothetical 1% change in interest rates and its effect on earnings before income taxes.

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, with US$50.0 million of 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. See Badger's 2020 audited Consolidated Financial Statements for a hypothetical 10% change in the Canadian dollar against the United States dollar and its effect on earnings before income taxes.

Selected Quarterly Financial Information

($ thousands, except per share amounts)	**2020**				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**130,612**	156,853	134,484	136,678	162,715	183,743	161,210	146,614
Net profit	**1,827**	16,153	1,701	5,068	15,913	25,839	11,949	6,031
Net profit per share, basic and diluted ($)	**$0.05**	$0.46	$0.05	$0.15	$0.45	$0.73	$0.33	$0.16
Dividends paid	**5,229**	5,229	5,229	4,972	5,001	5,067	5,112	4,885
Dividends per share, basic and diluted ($)	**$0.150**	$0.150	$0.150	$0.145	$0.140	$0.140	$0.140	$0.135

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

- General changes in economic growth and overall macro-economic conditions in both the U.S. and Canada;
- 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 typically resulted in an increase in revenues, gross dollar direct costs, general and administrative expenses and Adjusted EBITDA;
- Reduced customer activity levels beginning in March 2020 as a result of COVID-19, resulting in the curtailment of the production of hydrovacs at Badger's Red Deer manufacturing facility in the second quarter of 2020;
- The impact of the COVID-19 pandemic on both the U.S. and Canadian operations, which resulted in a broad-based slowdown of the North American economy. Revenue and underlying customer activity levels varied by region, largely due to the variability in the impact of COVID-19 on economic and construction activity levels;
- Impact of unusual and/or non-typical weather conditions such as natural disasters, general precipitation levels or extreme winter weather conditions which may impact the timing and level of customer demand;
- 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;
- The execution and implementation of Badger's Common Business Platform/ERP project; and
- Updated U.S. income tax legislation, effective December 22, 2017, which had a one-time impact on Badger's 2018 current income tax expense.

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.

Revenue per truck per month – United States

($ thousands, except for RPT and average hydrovacs)	Three months ended December 31,		Twelve months ended December 31,	
	2020	**2019**	**2020**	**2019**
Total revenue	**104,315**	127,474	**445,897**	512,471
Less: Other revenue	**3,475**	1,768	**8,990**	4,895
Hydrovac revenue	**100,840**	125,706	**436,907**	507,576
Foreign exchange rate [(1)]	**1.3055**	1.3201	**1.3408**	1.3267
Hydrovac revenue - U.S. equivalent	**77,242**	95,225	**325,855**	382,585
Average hydrovacs [(2)]	**995**	965	**987**	924
RPT (U.S. dollars) [(3)]	**25,877**	32,893	**27,512**	34,504

Revenue per truck per month – Canada

($ thousands, except for RPT and average hydrovacs)	Three months ended December 31,		Twelve months ended December 31,	
	2020	**2019**	**2020**	**2019**
Total revenue	**26,297**	35,241	**112,730**	141,811
Less: Other revenue	**3,501**	5,453	**17,785**	21,809
Hydrovac revenue	**22,796**	29,788	**94,945**	120,002
Average hydrovacs [(2)]	**400**	376	**389**	367
RPT [(3)]	**18,997**	26,408	**20,340**	27,248

Revenue per truck per month – Consolidated (mixed currency)

($ thousands, except for RPT and average hydrovacs)	Three months ended December 31,		Twelve months ended December 31,	
	2020	**2019**	**2020**	**2019**
Hydrovac revenue - U.S.	**77,242**	95,225	**325,855**	382,585
Hydrovac revenue - Canada	**22,796**	29,788	**94,945**	120,002
Total hydrovac revenue	**100,038**	125,013	**420,800**	502,587
Average hydrovacs [(2)]	**1,395**	1,341	**1,376**	1,291
RPT [(3)]	**23,904**	31,075	**25,484**	32,442

(1) Foreign exchange rate calculated on a weighted average basis for the respective period. See "Foreign Exchange Rates" for additional details.

(2) See "Fleet Summaries" for additional details.

(3) RPT 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.

Fleet Summaries

Number of hydrovacs at period end

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Canada	**398**	399	390	382	380	371	366	357
U.S.	**993**	999	1,008	1,017	981	949	922	884
	1,391	1,398	1,398	1,399	1,361	1,320	1,288	1,241
Hydrovac operator training center [1]	**1**	2	3	3	3	3	2	-
Total	**1,392**	1,400	1,401	1,402	1,364	1,323	1,290	1,241

[1] Represents hydrovac units being utilized at Badger's U.S. hydrovac operator training center. Hydrovacs utilized for training on a permanent basis are not available for day-to-day revenue generation, and as such, these units are excluded in the calculation of RPT.

Average number of hydrovacs during the period [1]

	2020					2019				
	Annual	**Q4**	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Canada	**389**	**399**	394	386	381	367	376	369	362	356
U.S.	**987**	**996**	1,004	1,013	999	924	965	936	903	875
Total	**1,376**	**1,395**	1,398	1,399	1,380	1,291	1,341	1,305	1,265	1,231

[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

	2020				2019			
Number of Marketing and Franchise Agreements	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Canada	**15**	15	15	15[5]	14	14[3]	11[2]	10[1]
U.S.	**2**	2	2	2[6]	3	3[4]	4	4

[1] A new Canadian based operating partner agreement was executed during the first quarter of 2019.
[2] A new Canadian based operating partner agreement was executed during the second quarter of 2019.
[3] Three new Canadian based operating partner agreements were executed during the third quarter of 2019.
[4] Badger purchased the assets of a U.S. based franchisee to facilitate the franchisee's exit from the business.
[5] A new Canadian based operating partner agreement was executed during the first quarter of 2020.
[6] A U.S. based franchise agreement was terminated in the first quarter of 2020.

Foreign Exchange Rates

	2020					2019				
1 USD:CAD	**Annual**	**Q4**	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Period weighted average [1]	**1.3408**	**1.3055**	1.3313	1.3839	1.3451	1.3267	1.3201	1.3208	1.3374	1.3296
Period end	**1.2732**	**1.2732**	1.3339	1.3628	1.4187	1.2988	1.2988	1.3243	1.3087	1.3363

[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 U.S. dollar to Canadian dollar foreign exchange rate impacts financial results due to the translation of 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 and impairment of property, plant and equipment, and gains and losses on foreign exchange. Adjusted EBITDA is a measure of the Company's operating profitability and is therefore useful to management and investors as it provides improved continuity with respect to the comparison of operating results over time. Adjusted EBITDA provides an indication of the results generated by the Company's principal business activities prior to how these activities are financed, the results are taxed in various jurisdictions, and assets are amortized. In addition, Adjusted EBITDA excludes gains and losses on sale of property, plant and equipment as these gains and losses are considered incidental and secondary to the principal business activities, it excludes gains and losses on foreign exchange, as such gains and losses can vary significantly based on factors beyond the Company's control, and it excludes share-based compensation as these expenses can vary significantly with changes in the price of the Company's common shares.

Adjusted EBITDA is calculated as follows:

($ thousands)	**Three months ended December 31,**		**Twelve months ended December 31,**	
Adjusted EBITDA	**2020**	2019	**2020**	2019
Net profit	**1,827**	15,913	**24,749**	59,732
Add:				
Depreciation and amortization	**17,308**	17,310	**72,792**	63,524
Share-based plans	**2,326**	(1,892)	**8,877**	11,039
Loss on sale and impairment of property, plant and equipment	**497**	445	**1,799**	55
Finance cost	**1,672**	2,035	**8,337**	6,917
Foreign exchange (gain) loss	**(1,930)**	127	**(2,120)**	713
Income tax expense	**305**	1,901	**8,394**	16,466
Adjusted EBITDA	**22,005**	35,839	**122,828**	158,446

Adjusted EBITDA can also be calculated as follows:

($ thousands)	**Three months ended December 31,**		**Twelve months ended December 31,**	
Adjusted EBITDA	**2020**	2019	**2020**	2019
Revenue	**130,612**	162,715	**558,627**	654,282
Less:				
Direct costs	**99,149**	115,079	**394,287**	453,264
General and administrative expense	**9,458**	11,797	**41,512**	42,572
Adjusted EBITDA	**22,005**	35,839	**122,828**	158,446

"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,	
Adjusted EBITDA margin	**2020**	2019	**2020**	2019
Adjusted EBITDA	**22,005**	35,839	**122,828**	158,446
Revenue	**130,612**	162,715	**558,627**	654,282
Adjusted EBITDA margin	**16.8%**	22.0%	**22.0%**	24.2%

"Normalized net profit" is net profit adjusted for share-based compensation, gains and losses on sale and impairment of property, plant and equipment, gains and losses on foreign exchange, and certain items of a one-time nature. Normalized net profit is a measure of the Company's profitability and is therefore useful to management and investors as it provides improved continuity with respect to the comparison of operating results over time. In addition, normalized net profit excludes gains and losses on sale and impairment 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, it excludes share-based compensation as these expenses can vary significantly with changes in the price of the Company's common shares, and it excludes certain one-time items such as business restructuring, government subsidy programs, and other certain items of a one-time nature.

Normalized net profit is calculated as follows:

($ thousands, except per share information)	Three months ended December 31,		Twelve months ended December 31,	
Normalized net profit	**2020**	2019	**2020**	2019
Net profit	**1,827**	15,913	**24,749**	59,732
Add:				
Share-based plans	**2,326**	(1,892)	**8,877**	11,039
Loss on sale and impairment of property, plant and equipment	**497**	445	**1,799**	55
Foreign exchange (gain) loss	**(1,930)**	127	**(2,120)**	713
Business restructuring	**-**	-	**4,616**	-
COVID-19 related government assistance	**(1,390)**	-	**(8,627)**	-
Bad debt relating to PG&E accounts receivable	**-**	-	**-**	770
Sale of PG&E accounts receivable	**-**	-	**-**	(4,969)
Normalized net profit before tax effect of normalizing adjustments	**1,330**	14,593	**29,294**	67,340
Income tax (recovery) expense related to normalizing adjustments	**(71)**	(141)	**1,151**	1,644
Normalized net profit	**1,401**	14,734	**28,143**	65,696
Normalized net profit per share, basic and diluted[(1)]	**$0.04**	$0.42	**$0.81**	$1.83

(1) Per share, basic and diluted measures calculated by dividing the respective financial measure with the weighted average common shares outstanding for the three months ended December 31, 2020 of 34,853,838 (December 31, 2019 – 35,060,260) and for the twelve months ended December 31, 2020 of 34,870,893 (December 31, 2019 – 35,825,820). See "Share Capital" for details.

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

Compliance EBITDA is calculated as follows:

($ thousands)	**Twelve months ended December 31,**	
Compliance EBITDA	**2020**	2019
Net profit	**24,749**	59,732
Add:		
Depreciation and amortization, including non-cash impairments	**74,495**	63,524
Finance cost	**8,337**	6,917
Income tax expense	**8,394**	16,466
Compliance EBITDA – for purposes of senior secured notes	**115,975**	146,639
Add:		
Foreign currency revaluations	**(3,063)**	(44)
Loss on sale of property, plant and equipment	**96**	55
Share-based payments	**4,303**	2,477
Compliance EBITDA – for purposes of credit facilities [(1)]	**117,311**	149,127

(1) The calculation of Compliance EBITDA related to the Company's credit facilities for the twelve months ended December 31, 2020, is in accordance with the requirements of the Company's syndicated revolving credit facility, which was closed on September 30, 2019, and the Company's supplemental credit facility, which was closed on May 7, 2020.

"Total Debt" consists of long-term debt and lease liabilities, including the current portion thereof, and issued letters of credit, less certain cash on hand. Total Debt is used by the Company to calculate compliance with its debt covenants and other credit information.

Total Debt is calculated as follows:

($ thousands)		
Total Debt	**December 31, 2020**	December 31, 2019
Long-term debt	**31,830**	64,940
Current portion of long-term debt	**31,830**	32,470
Borrowings under credit facility	**68,820**	67,157
Lease liability	**9,798**	11,442
Current portion of lease liability	**5,412**	5,709
Total obligations	**147,690**	181,718
Add: issued letters of credit	**4,750**	4,401
Less: cash on hand up to $10.0 million [(1)]	**(10,000)**	(8,801)
Total Debt – for purposes of senior secured notes	**142,440**	177,318
Less: cash on hand greater than $10.0 million up to $50.0 million	**(7,295)**	-
Total Debt – for purposes of credit facilities [(2)]	**135,145**	177,318

(1) Badger may deduct certain cash on hand in the calculation of Total Debt in accordance with the requirements of its credit facilities. The Company's syndicated revolving credit facility and its supplemental credit facility, allow for the deduction of up to $50.0 million of cash on hand with the senior secured note facility allowing for the deduction of up to $10.0 million of cash on hand.

(2) The calculation of Total Debt related to the Company's credit facilities for the twelve months ended December 31, 2020, is in accordance with the requirements of the Company's syndicated revolving credit facility, which was closed on September 30, 2019, and the Company's supplemental credit facility, which was closed on May 7, 2020.

"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)		
Tangible Net Worth	**December 31, 2020**	December 31, 2019
Shareholders equity	**328,519**	330,671
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	**(18,880)**	(22,963)
Less: intangible assets and goodwill	**(32,289)**	(32,018)
Tangible Net Worth	**277,350**	275,690

Critical Accounting Policies and Estimates

Badger's audited Consolidated Financial Statements have been prepared in accordance with IFRS. The significant accounting policies are described in the audited Consolidated Financial Statements for the year ended December 31, 2020. 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 Financial Statements in accordance with IFRS, the following critical accounting estimates have been identified by management:

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.

Intangible Assets

Intangible assets consist of service rights acquired from the Company's operating partners, customer relationships, trade names, non-compete agreements and costs associated with the Company's ERP implementation. The initial valuation of intangibles at the closing date of any acquisition requires judgement and estimates by management with respect to identification, valuation and determining the expected periods of benefit. Valuations are based on discounted expected future cash flows and other financial tools and models and are amortized over their expected periods of benefit or not amortized if it is determined the intangible asset has an indefinite life. Intangible assets are reviewed annually with respect to their useful lives or more frequently if events or changes in circumstances indicate

that the assets might be impaired. A change in the remaining life of an intangible asset would affect the amortization rate used to amortize the intangible asset for assets being amortized, and for assets not being amortized could result in an impairment of the related asset, the impact of which would be recognized in the Company's consolidated statement of comprehensive income as amortization expense or an asset impairment charge.

Depreciation and Amortization

This accounting estimate has a significant effect on the Company's financial results. It is carried out on the basis of the hydrovac 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. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life of the related intangible assets. Changes to depreciation and amortization rates, if any, are reported prospectively if they occur.

Income Taxes

Current Income Taxes

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

Deferred Income Taxes

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

Deferred income tax liabilities are recognized when there are taxable temporary differences that will result in a future outflow to a tax authority. The Company records a provision for the amount that is expected to be settled. Deferred income tax liabilities may be impacted by a change in the likelihood of a future outflow and estimates of the expected settlement amount, timing of reversals and the tax laws in which the Company operates.

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.

Allowance for Doubtful Accounts

The Company records a loss allowance for expected credit losses on financial assets that are measured at amortized cost. The amortized cost is reduced by impairment losses at an amount equal to the lifetime expected credit losses that result from all possible default events over the expected life of the financial instrument. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss

is recognized in the consolidated statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

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

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

Goodwill

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

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.

Government Grants

Government grants are recognized when the company has reasonable assurance that it has complied with the conditions of the grants and that they will be received. The company recognizes the grants in profit and loss on a consistent basis over the periods in which expenses and related costs for which the grants are intended are recognized. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of providing financial support to the Company with no future costs are recognized in profit or loss in the period in which they become receivable.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure Controls and Procedures

Badger's President and CEO and its VP Finance and CFO have designed, or caused to be designed under their direct supervision, Badger's disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, adopted by the Canadian Securities Administrators) to provide reasonable assurance that (i) material information relating to Badger, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and (ii) material information required to be disclosed in Badger's annual filings, interim filings or other reports filed or submitted by it under Canadian securities legislation is recorded, processed, summarized and reported on a timely basis. Further, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's disclosure controls and procedures as at December 31, 2020 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, 2020 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 2020 or in the year ended December 31, 2020.

Inherent Limitations

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

Cautionary Statements Regarding Forward-Looking Information and Statements

Certain statements and information contained in this MD&A and other continuous disclosure documents of the Company referenced herein, including statements and information that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may", "continues to", "goal" 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:

- The anticipated benefit of the continual review of all aspects of Badger's operations, including the execution of cost reduction initiatives, as it relates to Badger's financial results and financial position, including the impact on revenues, pricing, operating costs, margins and the optimization of its fleet;
- The expectation that restructuring activities and cost reduction initiatives executed in the second quarter of 2020 will continue to benefit financial results;
- Badger's intention to continue to make investments into its organizational design and management structure in 2021;
- Badger's intention to curtail the manufacture of hydrovac units and other capital expenditures throughout 2021;
- Badger's expectation to continue to optimize asset utilization;
- Badger's expectations with respect to hydrovac production and retirement in 2021;
- Anticipated market recovery from the COVID-19 pandemic in 2021 and its impact on Badger and its operations, including in connection with seasonal construction volume increases;
- The anticipated impact of reconfigured process flows at the Red Deer facility on future production capacity;
- The expectation of future market opportunities for Badger with respect to infrastructure strengthening;
- The anticipated effects of the shared services center, including enhancing Badger's customer support functions and improving internal administrative capabilities;
- Disclosure under the heading "Business Outlook and Strategic Milestones",
- The expectation that the execution of the EDC credit insurance policy will improve Badger's credit risk exposure;
- Implementation of the NCIB program including receipt of customary approvals from the Toronto Stock Exchange and the timing associated with receipt of such approvals;
- Badger's ability to continue to grow its business, including revenue, as a result of capitalizing on the long-term growth opportunity in the North American hydrovac business;
- Badger does not anticipate any limitations in its ability to access liquidity under its various credit facilities; and
- The benefits, if any, that Badger's operational scale creates related to financial and operating performance.

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

- Badger will maintain its financial position and financial resources will continue to be available to Badger;
- The monitoring of potential impacts of COVID-19 on all aspects of Badger's business, including the impact on the demand for Badger's services and the expectation that Badger's business model, operating scale and financial position will enable it to manage effectively through the current uncertain economic environment as a result of COVID-19, and that the long-term growth potential of non-destructive excavation will not be adversely impacted by the same;
- The actions taken by Badger to protect the health and safety of its employees, customers and communities, and to mitigate the operational and financial effects of COVID-19, will have the intended effects;
- The overall market for Badger's services will not be adversely affected in the long-term by COVID-19, economic disruption, or other factors beyond Badger's control such as weather, natural disasters, global events, legislation changes and technological advances;
- There will be long-term sustained customer demand for hydrovac services from a broad range of end use markets in North America;
- Badger will maintain relationships with current customers and develop successful relationships with new customers;
- Badger will collect customer payments in a timely manner;
- Badger will be able to compete effectively for the demand for its services;
- There will not be significant changes in profit margins due to pricing changes driven by market conditions, competition, regulatory factors or other unforeseen factors; and
- Badger will realize and continue to realize the efficiencies and benefits of the executed business restructuring activities, the formation of the shared services center and other business improvement initiatives.

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; 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) or at the Company's website. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Risk Factors to Badger

The risk factors and uncertainties detailed below are a summary of Badger's assessment of its material risk factors as detailed in Badger's 2020 Annual Information Form under "Risk Factors" which is filed on the Canadian Securities Administrators' website, www.sedar.com and on Badger's website, www.badgerinc.com. Information contained within these websites does not constitute part of this MD&A. General risks to Badger are as follows:

Global Health Crises, Including COVID-19

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

In particular, the outbreak of a novel coronavirus ("COVID-19") has caused severe global disruptions since its outbreak in early 2020. In response to the COVID-19 pandemic, countries around the world, including Canada and the U.S., implemented significant governmental measures, including lockdowns, closures, quarantines, curfews and travel bans, intended to control and limit the spread of COVID-19. Businesses have taken wide-sweeping and various precautions including requiring employees to work remotely, limiting the number of customers and employees within their business, imposing additional travel restrictions and temporarily closing businesses. The duration of the business disruption and related financial impact from the COVID-19 pandemic is not known and could continue to materially adversely affect the demand for Badger's services and ability to operate its business or to achieve its growth objectives in the manner and on the timelines previously planned. Badger may also have to quickly adapt to any additional or new restrictions that may be imposed often with very little or no warning and such additional restrictions may have a material impact on Badger's business and operations.

Depending on the duration and severity of the COVID-19 pandemic, it may also have the effect of heightening risks relating to our ability to maintain adequate internal controls in the event that our employees are restricted from accessing our regular offices for a significant period of time; increased costs resulting from our continued efforts to mitigate the impact and spread of COVID-19; a higher rate of losses on our accounts receivable due to the impact of COVID-19 on our customer's businesses and their ability to satisfy contractual obligations; restricted access to capital and increased borrowing costs; our ability to continue to pay dividends and service obligations under our debt securities and other debt obligations; and complying with the covenants contained in the agreements that govern our existing indebtedness.

The ongoing risks associated with the COVID-19 pandemic and other public health crisis include, but are not limited to: risks to employee health and safety; a slowdown or suspension of operations in geographic locations impacted by an outbreak; delays in the completion of Badger's services which may require the Company to incur penalties or sanctions under contracts, incur additional non-compensable costs, or could result in the cancellation of such contracts; and supply chain disruptions, including Badger's procurement of the equipment and parts necessary for the construction, operation, and maintenance of Badger's hydrovacs and other assets.

Furthermore, in connection with the COVID-19 pandemic, Badger has availed itself of the Government of Canada Canadian Emergency Wage Subsidy. A reduction or elimination of this benefit may lead to personnel reductions, adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Corporation's liquidity and ability to generate income and cash flows in the future.

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 Corporation 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 Corporation.

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 Agreement and the insurance providers of the Company. As a result, the cash of the Company may become exposed to credit related losses in the event of non-performance by counterparties to these financial instruments. In the event that a counterparty fails to complete its obligations, the Company would bear the risk of loss of the amount expected to be received under these financial instruments in the event of the default or bankruptcy of a counterparty.

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

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 continue to be focused on succession planning with respect to senior management personnel to mitigate this risk.

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 Badger 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 Corporation having access, at a reasonable cost and in a timely manner, to parts and products required to manufacture Badger Hydrovacs. No assurance can be given that the Corporation will be successful in maintaining the required supply of parts and products to manufacture Badger Hydrovacs.

Fluctuations in Weather and Seasonality

Badger's operating results have been, and are expected to continue to be, subject to fluctuations on a quarterly basis due to a variety of factors including changes in weather conditions and seasonality. The seasonal nature of non-destructive excavation services requires Badger to estimate market demand for different seasons and prepare accordingly by hiring and training operators sufficiently in advance of demand materializing. While management takes into account several factors in estimating market demand, there can be no assurance that Badger will recover such additional expenditures or that the estimates made by management in respect of demand will materialize or materialize on the timing anticipated.

Additionally, in the western United States, Badger has in the past, been restricted by the imposition of government regulations from conducting its work in environmentally sensitive areas during the mating seasons of certain animals and birds. This has had a negative effect on Badger's results. As such, changes in the weather and seasonality may, depending on the location and nature of the event, have either a positive or negative effect on Badger's operating and financial results.

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 Corporation's ability to retain and expand its customer roster; expand into new geographical regions; recruit and retain additional staff; and manufacture sufficient additional Badger 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

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

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

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.

Market Price of Badger Shares

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

Cash Dividends are Not Guaranteed

Although the Corporation intends to pay monthly cash dividends these payments are not assured and may be reduced or suspended. The ability of the Corporation to pay dividends and the actual amount of such dividends will be dependent upon numerous factors including, but not limited to, Badger's financial performance, debt covenants and obligations, working capital requirements and future capital requirements. In addition, the market value of the Badger Shares may decline if the Corporation is unable to meet its cash dividend targets in the future and that decline may be significant. Dividend payments may be reviewed and adjusted from time to time by the Board to reflect current business conditions. The Badger Shares are not a source of guaranteed income and Badger Shareholders should be aware that they bear the risk that the frequency and amounts of dividends may fluctuate or be interrupted.

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

Under the terms of Badger's credit facilities, Badger is restricted from declaring dividends or distributing cash if Badger is in breach of its debt covenants. As at the date of this MD&A, Badger is in compliance with all of its covenants.

In addition, Badger must comply with the requirements of the ABCA, which states that a corporation shall not declare or pay a dividend if there are reasonable grounds for believing that (a) the corporation is, or would after the payment be, unable to pay its liabilities as they become due or (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes.

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 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 where a financial loss would be experienced if a counterparty to a financial asset failed to meet its contractual obligations. Badger's credit risk exposure is primarily through its trade receivables which are subject to industry credit risks. Badger mitigates credit risks by: (i) maintaining a large and diversified customer base across the utility, petroleum and construction industries; (ii) actively monitoring the financial strength of its customer base through credit processes to minimize the risk of default on receivables; (iii) relying on a due diligence process to approve credit for new and existing customers by assessing the creditworthiness of each customer; and (iv) by insuring its trade receivables portfolio. Badger cannot assure that these mitigation efforts will be successful in mitigating its credit risk exposure.

Capital Investment

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

Access to Capital

The Corporation 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 Corporation when needed or on terms acceptable to the Corporation. The Corporation's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Corporation's growth and may have a material adverse effect on the Corporation. The agreements governing the Corporation's various credit facilities impose certain operating and financial covenants on the Corporation that may prevent the Corporation from pursuing certain business opportunities and restrict its ability to operate its business.

Additionally, the Corporation's ability to comply with these covenants will likely be affected by events beyond its control, and the Corporation cannot assure that it will satisfy those requirements. If the Corporation'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 Corporation'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, the excavation,

transportation and disposal of customer's materials and the manufacture of its Badger 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 result in the suspension or revocation of operating permits and 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 TSX, 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 Corporation's business or that of its customers or suppliers. Such changes could increase the costs of doing business for the Corporation, its customers, or suppliers, or restrict the Corporation's actions, causing the Corporation'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 has been ratified by all three countries and took effect on July 1, 2020. The Corporation is currently assessing the impact of this agreement and its activities.

Implementation of new legislative or regulatory regimes could impose additional costs on the Corporation, decrease demand for the Corporation's services or otherwise negatively impact the Corporation, which may have a material adverse effect on the Corporation'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 ordinary 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 legal proceedings could divert management time, attention and effort and the resolution of any particular legal proceeding to which Badger may become subject could have a material effect on Badger's business, financial condition, and results of operations.

Foreign Currency Risk

A significant portion of the Corporation's activities relate to operations in the United States and are therefore exposed to foreign currency fluctuations. The Corporation 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 Corporation'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 Corporation's foreign operations, including the translation of foreign currency denominated assets and liabilities designated as a hedge of the Corporation's net investment in foreign operations, if applicable, are included in other comprehensive income. With the exception of the designation of the Corporation's U.S. dollar denominated debt, the Corporation 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 Corporation'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 on Badger Shares.

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.

The Company depreciates its Badger Hydrovac units over a period of 10 years, a policy that is based on its current knowledge and operating experience. While management of Badger believe that his time frame is reasonable, newer technology or some other unforeseen circumstance could lower this life expectancy.