



Management's Discussion and Analysis
Three and Six Months Ended June 30, 2018

August 13, 2018

Management's Discussion and Analysis

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

This MD&A is dated and has been prepared taking into consideration information available to August 13, 2018. All references to "dollars" and "\$" are to the currency of Canada unless otherwise indicated. This MD&A includes forward-looking statements and assumptions. See "Cautionary Statements Regarding Forward-Looking Information and Statements" for additional details.

Financial Highlights

<i>(\$ thousands, except revenue per truck per month, per share and share information)</i>	Three months ended		Six months ended	
	2018	June 30, 2017	2018	June 30, 2017
Revenue:				
Hydrovac service revenue	123,188	106,432	225,397	191,660
Other service revenue	23,844	16,982	42,082	31,781
Truck placement revenue	518	282	642	402
Total revenue	147,550	123,696	268,121	223,843
Revenue per truck per month ("RPT") ⁽¹⁾ - quarterly	30,300	29,141	n/a	n/a
Adjusted EBITDA ⁽¹⁾	38,461	32,104	62,904	51,961
Adjusted EBITDA per share, basic and diluted ⁽¹⁾⁽²⁾	1.04	0.87	1.70	1.40
Adjusted EBITDA margin ⁽¹⁾	26.1%	26.0%	23.5%	23.2%
Profit before tax	19,559	21,651	30,641	27,182
Net profit	10,586	14,718	18,660	18,416
Net profit per share, basic and diluted ⁽²⁾	0.29	0.40	0.50	0.50
Cash flow from operating activities before working capital and other adjustments	38,710	31,671	63,389	51,368
Cash flow from operating activities before working capital and other adjustments per share, basic and diluted ⁽²⁾	1.04	0.85	1.71	1.38
Dividends paid	4,749	3,673	8,978	7,346
Weighted average common shares outstanding	37,100,681	37,100,681	37,100,681	37,100,681

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

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

Comparable IFRS Financial Information ⁽¹⁾

(\$ thousands, except per share information)	Three months ended		Six months ended	
	2018	June 30, 2017	2018	June 30, 2017
Cash flow from operating activities	12,867	10,775	45,185	28,525
Cash flow from operating activities per share, basic and diluted ⁽²⁾	0.35	0.29	1.22	0.77

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

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

Overview

2018 Second Quarter Financial and Operational Highlights

- Badger generated Adjusted EBITDA of \$38.5 million for the second quarter of 2018 compared to \$32.1 million in the prior year comparative quarter. Improvements in Adjusted EBITDA were driven by revenue growth, higher hydrovac utilization as a result of a combination of an increase in operating hours and modest improvements in pricing, and active management of direct costs, partially offset by higher general and administrative costs.
 - Revenue for the second quarter of 2018 of \$147.6 million was \$23.9 million or 19% higher compared to \$123.7 million in the prior year comparative quarter.
 - In the United States (“U.S.”), revenue for the second quarter of 2018 was US\$86.3 million, 28% higher than the prior year comparative quarter with revenue of US\$67.3 million. In Canada, revenue for the second quarter of 2018 was \$36.0 million, 8% higher than the prior year comparative quarter with revenue of \$33.2 million.
 - Revenue growth in the second quarter of 2018 in both the U.S. and Canadian markets was due to higher activity across Badger’s broad range of geographic and end use markets. Badger saw improvements in infrastructure and construction related markets due to increased overall activity levels, continued growth in the adoption of hydrovac as the preferred method of safe and non-destructive excavation, and ongoing improvements in oil and gas markets.
- Revenue per truck per month (“RPT”) for the second quarter of 2018 was \$30,300 compared to \$29,141 in the prior year comparative quarter. The year-over-year improvement in RPT was driven by revenue growth due to a combination of sales volume and pricing improvements, combined with improved asset utilization by leveraging Badger’s broad branch network.
- Adjusted EBITDA margin for the second quarter of 2018 was 26.1%, consistent with the prior year comparative quarter margin of 26.0%.
 - Adjusted EBITDA margin in the second quarter of 2018 benefitted from a reduction in direct operating costs offset by higher general and administrative expenses.
- During the second quarter of 2018, Badger placed 36 net additional hydrovacs into service, consisting of 55 new and 19 retired hydrovacs (for the six months ended June 30, 2018, 81 net additional hydrovacs, consisting of 110 new and 29 retired). As at June 30, 2018, Badger had 1,190 hydrovacs in operation compared to 1,056 in the prior year comparative quarter and 1,109 as at December 31, 2017. See “Outlook” and “Capital Resources” for additional details.
- Net profit for the second quarter of 2018 was \$10.6 million or \$0.29 per share compared to \$14.7 million or \$0.40 per share in the prior year comparative quarter. Net profit was positively impacted by higher Adjusted

EBITDA, offset by an \$8.5 million increase in share-based compensation plan expense due to the increase in the market value of Badger's shares during the second quarter and higher income tax expense.

- During the second quarter Badger commenced a comprehensive update to its legacy information technology systems into a single standardized enterprise resource planning ("ERP") system in conjunction with its ongoing business process standardization initiatives. See "Common Business Platform Project" for additional details.
- Badger continues to maintain a strong balance sheet and currently has no amounts drawn on its syndicated revolving credit facility, providing Badger with excellent flexibility to facilitate ongoing growth in the business. Badger's total debt less cash and cash equivalents was \$61.5 million at June 30, 2018, with a corresponding debt less cash and cash equivalents to Compliance EBITDA ratio of 0.5X.

Outlook

Badger continues to realize and anticipates ongoing growth in the use of hydrovac for non-destructive excavation as a result of continued customer adoption, particularly in its U.S. markets. Badger expects to see improvements in revenue as a result of investments in developing its branch network and its business development function. The overall macro-economic environment in both the U.S. and Canada is anticipated to be supportive of ongoing infrastructure, construction and oil and gas activity levels for the remainder of 2018. In particular, after several years of reduced market opportunities, Badger is realizing renewed and welcome growth in its oil and gas markets.

Continued growth in Badger's end use markets and geographic areas throughout 2017 and the first half of 2018 has resulted in an increase in revenue and improved fleet utilization as evidenced by a higher realized RPT. Based on existing and forecasted activity levels, Badger anticipates that its total hydrovac build for fiscal 2018 will be approximately 160 to 200 units with anticipated retirements of 60 to 80 units, both of which are unchanged from Badger's disclosure in the first quarter of 2018. Consistent with prior years, Badger actively manages both its build rate and retirements based on current and future customer demand, in addition to the ongoing assessment of the cost of repairing and maintaining a hydrovac versus retiring and replacing a unit.

Common Business Platform Project

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

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

Total expenditures incurred related to the Common Business Platform project for the second quarter of 2018 were \$0.4 million with \$0.2 million included in general and administrative expenses and \$0.2 million in capital

expenditures. For the six months ended June 30, 2018, total costs incurred were \$0.5 million, with \$0.3 million included in general and administrative expenses and \$0.2 million in capital expenditures.

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

Revenues

Revenues of \$147.6 million for the second quarter of 2018 were 19% higher than the \$123.7 million generated during the prior year comparative quarter. Throughout the second quarter of 2018, Badger realized improved demand for hydrovac and related services across the majority of its operating regions and end use markets. The increase in revenue in the second quarter of 2018 over the prior year comparative quarter is attributable to the following:

- Revenue in the U.S. operations increased by 28% to US\$86.3 million for the second quarter of 2018 compared to US\$67.3 million in the prior year comparative quarter. Revenue growth throughout the second quarter of 2018 was attributable to continued customer growth with new and existing customers, and the ongoing benefit of a recovery in oil and gas producing regions. Average hydrovac rates were consistent to modestly higher than the prior year comparative quarter. U.S. revenue converted to Canadian dollars was \$111.5 million in the second quarter of 2018, compared to \$90.5 million in the prior year comparative quarter, a 23% increase. The average foreign currency rate for the second quarter of 2018 was CDN\$1.2911 to US\$1.00 compared to CDN\$1.3457 to US\$1.00 in the prior year comparative quarter.
- Revenue in the Canadian operations increased by 8% to \$36.0 million in the second quarter of 2018 compared to \$33.2 million in the prior year comparative quarter. The increase in revenue was due to continued improvements in customer demand for hydrovac services, primarily in Western Canada, where Badger continues to see improvements in demand in oil and gas producing regions. In addition to improved activity levels in Western Canada, revenue in Badger's Eastern Canadian operations for the second quarter of 2018 was also higher than the prior year comparative quarter due to a combination of improved customer demand and higher average hydrovac rates. As previously disclosed and discussed, changes to the regulatory environment implemented by the Ontario Ministry of Transportation in mid-2017 related to the licensing of hydrovacs has helped to support modest improvements in average hydrovac rates in Ontario.
- Higher revenues for the second quarter of 2018 in both the U.S. and Canada compared to the prior year comparative quarter can also be attributed to Badger's investment in its business development function, a key differentiator for Badger compared to its competitors. Badger continues to realize revenue growth as a result of increased market penetration, as the benefits and potential uses for hydrovac technology continue to be understood by Badger's existing and new customer base.
- Other services revenue for the second quarter of 2018 was \$23.8 million compared to \$17.0 million in the prior year comparative quarter. The increase in other revenue for the second quarter of 2018 was due primarily to higher general hydrovac related activity levels combined with a modest increase in non-hydrovac related services.
- Truck placement revenue of \$0.5 million in the second quarter of 2018 represents fees paid by franchisees for new hydrovacs received and put into service by the franchisees during the quarter. Truck placement revenue will vary on a year-over-year basis due to the variability in timing of when a franchisee may require a new hydrovac.

Badger's RPT for the second quarter of 2018 was \$30,300 compared to \$29,141 in the prior year comparative quarter. The improvement in RPT for the second quarter of 2018 was due primarily to a combination of higher overall revenues, customer growth as noted above, and the ongoing optimization of Badger's fleet through geographic relocation. Badger continues to assess its fleet on an ongoing basis to optimize operating performance and respond to regional customer needs. Badger is uniquely positioned to be able to respond to customer service requirements due to its large hydrovac fleet and extensive branch network.

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

Direct Costs

Direct costs for the second quarter of 2018 were \$101.5 million compared to \$87.1 million in the prior year comparative quarter. On a dollar basis, the increase in direct costs was directly attributable to higher revenues and increased customer demand. As a percentage of revenue, direct costs for the second quarter of 2018 were 69%, modestly lower than the prior year comparative quarter of 70%. Direct costs in the second quarter of 2018 benefitted from active cost management, in particular labour related costs. Labour related costs as a percentage of revenue were modestly lower than the prior year comparative quarter as a result of a combination of the management of variable labour costs and growth in the business in lower labour cost regions, which offset the impact of general wage inflation. As a percentage of revenue, costs related to fuel, insurance and repairs and maintenance expenses were consistent with the prior year quarter. Badger continues to manage costs through active expense management and fleet optimization, the impact of helps to mitigate higher costs due to general inflation and costs attributable to the growth in Badger's overall business such as recruitment, business development, fleet, and health and safety activities.

Included in direct costs is bad debt expense. Bad debt expense for the second quarter of 2018 was \$0.7 million compared to \$0.9 million in the prior year comparative quarter. Effective January 1, 2018, Badger adopted IFRS 9 – *Financial Instruments* which had an impact on the determination of Badger's allowance for doubtful accounts and the corresponding bad debt expense for the first and second quarters of 2018 and future reporting periods. IFRS 9 requires that Badger recognize the lifetime expected credit losses on the initial recognition of the related revenue, as opposed to the previous methodology of assessing the collectability of individual customer accounts. As such, every dollar of revenue recognized by Badger will now result in an addition to bad debts expense based on the expected lifetime credit loss. Consistent with the requirements of IFRS 9, Badger will analyze and assess the lifetime expected credit losses on an ongoing basis and will update the assumptions used in its calculations, if and when required.

Gross Profit

Gross profit for the second quarter of 2018 was \$46.1 million compared to \$36.6 million in the prior year comparative quarter. Gross profit margin was 31.2% for the second quarter of 2018, compared to 29.6% for the second quarter of 2017.

Gross profit margin in the U.S. operations was 32.3% in the second quarter of 2018 compared to 31.1% in the second quarter of 2017. Gross profit margin for the Canadian operations was 28.0% in the second quarter of 2018 compared to 25.3% in the second quarter of 2017. Gross profit margin improvements in the U.S. and Canada were driven primarily by a modest reduction in direct operating costs, primarily improved labour efficiency, combined with changes in end use market and regional sales mix. Average hydrovac rates for the second quarter of 2018 compared to the prior year comparative quarter were consistent to modestly higher across the majority of the U.S. and Canadian markets. Gross profit margin in the U.S. and Canada benefitted from the positive trends in RPT. A higher RPT may result in higher average gross profit margins as less direct fixed costs as a percentage of revenue are required to support the incremental revenue in the business.

General and Administrative Expenses

General and administrative expenses for the second quarter of 2018 were \$7.6 million compared to \$4.5 million in the prior year comparative quarter. As a percentage of revenue, general and administrative expenses were 5.2% in the second quarter of 2018 compared to 3.7% in the prior year comparative quarter. The increase in general and administrative expenses compared to the prior year quarter is due primarily to additional salary and benefits as a result of higher headcount, higher provisions for short-term incentive plan costs, costs associated with the Common Business Platform project, and higher professional costs associated with general corporate activities and ongoing strategic initiatives. The increase in headcount is the result of Badger's ongoing investment in additional administrative resources to facilitate Badger's current and future growth objectives. Higher professional fees relate to consulting costs to support several key strategic initiatives, including the Common Business Platform project and related information technology support applications, and enhanced corporate and investor communications. Included in general and administrative expense for the second quarter is \$0.2 million in expense associated with the Common Business Platform Project (\$0.3 million for the six months ended June 30, 2018).

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

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was \$12.1 million for the second quarter of 2018, compared to \$11.3 million in the second quarter of 2017. The increase in depreciation expense is the result of capital expenditures incurred during the trailing four quarters.

Share-based Compensation Expense

Share-based compensation expense was \$6.0 million in the second quarter of 2018 compared to a recovery of \$2.5 million in the second quarter of 2017. 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 of new long-term incentive plan grants. The change in share-based compensation in the second quarter of 2018 compared to 2017 is due primarily to the increase in the market value of Badger's common shares during the second quarter of 2018.

Gain or Loss on Sale of Property, Plant and Equipment

Gain on the sale of property, plant and equipment for the second quarter of 2018 was \$0.2 million as the residual value of units retired and disposed of was less than the proceeds on disposal.

Finance Cost

Finance cost was \$1.3 million for the second quarter of 2018 consistent with the prior year comparative quarter of \$1.3 million.

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

Income Tax

Total income tax expense for the second quarter of 2018 was \$9.0 million compared to \$6.9 million in the prior year comparative quarter. Included in total income tax expense is current income tax expense of \$7.7 million and deferred income tax expense of \$1.3 million for the second quarter of 2018, compared to current income taxes of \$6.1 million and deferred income taxes of \$0.8 million in the prior year comparative quarter.

Current income tax expense for the second quarter of 2018 of \$7.7 million is \$1.6 million higher than the prior year comparative quarter as the benefit of reduced U.S. current income taxes on Badger's normal course business was offset by a \$3.4 million one-time expense for current taxes related to the finalization of Badger's 2015 transfer pricing review (see "*Finalization of Income Taxes Receivable – 2015 Transfer Price Benefit*" for additional details). Current income tax expense for the second quarter of 2018 consists primarily of Canadian current income taxes, U.S. state income taxes, and a \$3.4 million expense related to the finalization of the 2015 transfer pricing review. No current income tax expense related to U.S. federal corporate income taxes is currently required as a result of the changes to U.S. federal corporate tax legislation which were enacted in the fourth quarter of 2017. The U.S. tax changes, which Badger detailed in its 2017 annual MD&A, include the benefit of updated bonus depreciation provisions, which allow for a 100% deduction of hydrovacs and other eligible capital placed into service in the U.S., combined with the impact of the U.S. federal corporate income tax rate reduction to 21% from 35%. The reduction in the U.S. federal corporate income tax rate was effective January 1, 2018. The combined impact of the bonus depreciation provisions and the reduction in the U.S. corporate income tax rate eliminated Badger's U.S. federal taxable income for the second quarter of 2018.

Deferred income tax expense for the second quarter of 2018 was \$1.3 million compared to a deferred income tax expense of \$0.8 million in the prior year quarter. The increase in deferred income tax expense compared to the prior year quarter is due to the updated U.S. bonus depreciation provisions which allow for a 100% deduction of hydrovacs and other eligible capital put into service in the U.S.

Finalization of Income Tax Receivable – 2015 Transfer Price Benefit

As previously disclosed, Badger had a US\$12.1 million income tax receivable (\$15.2 million in Canadian dollars as at December 31, 2017), due from U.S. taxation authorities related to previously completed transfer pricing activities for the years 2009 through 2013. The collection of the receivable was pending the final negotiation between the relevant taxation bodies in Canada and the United States (“Competent Authority”). During the second quarter of 2018, the Competent Authority completed their review, agreeing on a final settlement of US\$10.8 million. The US\$1.3 million (\$1.7 million Canadian dollars) difference between the US\$12.1 million receivable and the agreed upon settlement of US\$10.8 million, combined with additional tax of \$1.9 million due to the taxation of certain foreign currency gains as part of the settlement, resulted in a one-time increase to current income tax expense of \$3.4 million and a one-time increase to deferred income tax expense of \$0.2 million. The \$3.4 million in current taxes and \$0.2 million in deferred taxes related to the final negotiation has been recognized as a component of Badger’s second quarter 2018 income tax expense as noted above. As a result of the Competent Authority reviewing and resolving this matter there will be no material impact on future period net earnings.

Net Profit

Net profit for the second quarter of 2018 was \$10.6 million, a \$4.1 million decrease compared to net profit of \$14.7 million in the prior year comparative quarter. The change in net profit is due to strong revenue growth and improved asset utilization, offset by higher share-based compensation expense, higher general and administrative expenses, and higher income tax expense, all of which are fully described previously in this MD&A.

Other Comprehensive Income

Total other comprehensive income (“OCI”), which includes the effect of translating U.S. operations and the offsetting translation of U.S. dollar denominated senior secured notes that are designated as a hedge of the U.S. operations, resulted in a net other comprehensive gain of \$4.3 million in the second quarter of 2018, compared to a loss in other comprehensive income of \$3.9 million in the second quarter of 2017. The unrealized gain for the second quarter of 2018 is due to the U.S. dollar strengthening relative to the Canadian dollar as at June 30, 2018 compared to December 31, 2017. Other comprehensive income has no impact on Badger’s cash flow from operations or Adjusted EBITDA.

Liquidity and Dividends

Cash flow from operating activities for the second quarter of 2018 was \$12.9 million, compared to the prior year comparative quarter of \$10.8 million. Cash flow from operating activities was impacted by higher net profit after the impact of certain non-cash adjustments, offset by an increase in working capital requirements. See the interim condensed consolidated statement of cash flows contained within Badger’s interim condensed consolidated financial statements for additional details. The increase in working capital requirements is due to ongoing organic revenue growth combined with the impact of the seasonal improvement in Badger’s business in the second quarter, both of which result in a normal course increase in working capital requirements. Cash

flow from operating activities before non-cash working capital and other adjustments was \$38.7 million in the second quarter of 2018 compared to \$31.7 million in the prior year comparative quarter. The increase in cash flow from operating activities before non-cash working capital and other adjustments is due primarily to higher Adjusted EBITDA in the current year quarter.

Working capital is a normal course component of Badger's business. Changes in working capital levels may result from increasing or decreasing revenue, the seasonality in Badger's operations, the timing of the collection of receivables and the payment of payables, the timing of capital expenditures, and the impact of fluctuations in foreign currency exchange rates. Badger had working capital of \$122.8 million at June 30, 2018, compared to \$113.9 million at December 31, 2017. Working capital as at June 30, 2018 was modestly higher than December 31, 2017, as an increase in trade and other receivables and the impact of a stronger U.S. dollar on U.S. denominated receivables, was only partially offset by higher trade and other payables and lower cash and cash equivalents. The reduction in cash and cash equivalents compared to December 31, 2017 is primarily due to capital expenditures related to the manufacture of hydrovacs for the six months ended June 30, 2018. See "Capital Expenditures" for additional details.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totaled \$134.5 million at June 30, 2018, \$23.5 million higher than the balance at December 31, 2017 of \$112.0 million. The increase in trade and other receivables is a result of revenue growth experienced in the second quarter of 2018 due largely to the ongoing organic growth in Badger's business combined with the impact of the seasonal improvement in Badger's business as a result of the beginning of the 2018 summer construction season and the impact of a stronger U.S. dollar on U.S. denominated receivables. Included in total trade and other receivables at June 30, 2018 was \$4.5 million in accrued revenue, compared to \$1.8 million at December 31, 2017. The increase in accrued revenue is due to the growth in the overall business, an increase in the number of invoices related to large scale projects which have pre-defined invoicing terms and conditions, combined with the impact on the processing of invoices due to statutory holidays. Accrued revenue is recognized only when it meets the requirements of Badger's revenue recognition policy.

As at June 30, 2018, 86% of Badger's trade receivables were aged 90 days or less, compared with the ageing at December 31, 2017 of 83% aged 90 days or less.

The Company uses its cash and cash equivalents to pay dividends to shareholders, to build additional hydrovacs units, to fund day-to-day operations, and for general corporate purposes. Badger assesses its need for general liquidity based on its cash flow from operating activities combined with the financial capacity available under its syndicated revolving credit facility. Badger's access to liquidity is sufficient to meet the existing operational and capital expenditure needs of the business.

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

Capital Resources

Investing

Badger invested \$26.1 million in property, plant and equipment for the three months ended June 30, 2018, compared to \$22.9 million in the prior year comparative quarter. The majority of capital expenditures for the second quarter of 2018 related to the production of hydrovacs and the purchase of chassis in advance of future hydrovac production requirements. Chassis purchases are included with work-in-progress (“WIP”), in the summary of capital expenditures below.

For the second quarter ended 2018, Badger completed 55 hydrovacs, compared to 41 hydrovacs in the second quarter of 2017.

Capital Expenditures

<i>(\$ thousands)</i>	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Hydrovac completed units and work-in-progress	23,146	20,814	44,945	35,734
Other vehicles and trailers	2,618	1,806	3,861	4,287
Buildings	2	26	22	26
Other	383	215	468	600
Total capital expenditures	26,149	22,861	49,296	40,647

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

The cost to build a hydrovac will fluctuate on an annual basis due to factors such as: the number of hydrovac units built in the Red Deer manufacturing facility; the cost of chassis; labour and materials; and, the impact of foreign currency rates as many materials are denominated or otherwise influenced by foreign currency exchange rates. For a summary of the historical average annual hydrovac manufacturing cost, refer to Badger’s 2017 annual MD&A.

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

As detailed earlier in this MD&A, for the three months ended June 30, 2018, Badger incurred \$0.2 million in costs related to the Common Business Platform project which have been capitalized and categorized as a component of intangible assets (\$0.2 million for the six months ended June 30, 2018).

Contractual Obligations

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

Normal Course Issuer Bid

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

Financing

Syndicated revolving credit facility

Badger has a syndicated revolving credit facility (the “credit facility”) with a syndicate of three lenders. The credit facility, which is \$148.8 million in aggregate Canadian dollars, consists of a \$50.0 million Canadian tranche and a US\$75.0 million (\$98.8 million Canadian dollar equivalent as at June 30, 2018) U.S. denominated tranche, providing Badger with the administrative flexibility to borrow in both Canada and the United States. The credit facility, which is a four year term, matures on August 11, 2021. Badger has the flexibility to expand the credit facility, subject to approval by the lenders, by an additional \$100.0 million.

Badger maintains the credit facility for general liquidity management, general corporate purposes and to finance Badger’s capital expenditure program. The credit facility bears interest, at the Company's option, at either the bank's prime rate plus a tiered set of basis points or bankers' acceptance (“BA”)/London interbank offered rate (“LIBOR”) also with a tiered structure. A stand-by fee is also required on the unused portion of the credit facility on a tiered basis. The prime rate tiers range between zero and 125 basis points. The BA/LIBOR tiers range from 125 to 250 basis points. The stand-by fee tiers range between 25 and 50 basis points. All of the tiers are based on the Company’s Funded Debt to Compliance EBITDA ratio. Stand-by fees are expensed as incurred.

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

As at June 30, 2018, the Company had issued letters of credit of \$3.5 million (December 31, 2017 - \$3.3 million). The outstanding letters of credit, which reduce the amount of available credit under the syndicated credit facility, support Badger’s U.S. insurance program and certain other performance bonds.

At June 30, 2018, the Company had available \$145.3 million (December 31, 2017 - \$140.8 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Senior Secured Notes

On January 24, 2014, Badger closed a private placement of senior secured notes. The notes, which rank pari passu with the credit facility, have a principal amount of US\$75.0 million (\$98.8 million Canadian equivalent at June 30, 2018) and an interest rate of 4.83% per annum and mature on January 24, 2022. The Canadian dollar equivalent on January 24, 2014 was \$82.9 million. Amortizing principal repayments of US\$25.0 million are due under the notes on January 24, 2020, January 24, 2021 and January 24, 2022. Interest is paid semi-annually in arrears.

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

Compliance

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

Financial covenant	June 30, 2018	December 31, 2017	Threshold
Funded Debt to Compliance EBITDA ⁽¹⁾⁽²⁾	0.7:1	0.7:1	2.75:1 max
Interest Coverage Ratio ⁽¹⁾⁽³⁾	23.2:1	22.3:1	3.00:1 min
Tangible Net Worth ⁽¹⁾	\$299.2 million	\$290.1 million	\$171.8 million

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

⁽²⁾ Funded Debt to Compliance EBITDA as at June 30, 2018 calculated as \$92.3 million in Funded Debt divided by \$127.6 million of Compliance EBITDA and for December 31, 2017 calculated as \$87.4 million in Funded Debt divided by \$122.6 million of Compliance EBITDA.

⁽³⁾ The Interest Coverage Ratio is calculated as Compliance EBITDA divided by interest expense. For the twelve months year ended June 30, 2018 calculated as \$127.6 million in Compliance EBITDA divided by \$5.5 million in interest expense and for the twelve months ended December 31, 2017 calculated as \$122.6 million in Compliance EBITDA divided by \$5.5 million in interest expense. Interest Expense is calculated in accordance with IFRS on a trailing 12 month basis.

Throughout the second quarter of 2018, and as at June 30, 2018, the Company was in compliance with these covenants and all other covenants. For additional details on the credit facilities, including the financial and non-financial covenants, see the Company's 2017 annual audited consolidated financial statements and the Company's 2017 Annual Information Form.

Share Capital

As at August 13, 2018, June 30, 2018, and December 31, 2017, the common shares outstanding and the weighted average common shares outstanding were 37,100,681. Badger does not currently have any material financial instruments which can be converted into additional common shares.

Financial Instruments and Risk Management

Fair values

The Company's financial instruments recognized on the consolidated statements of financial position consist of cash and cash equivalents, trade and other receivables, income taxes receivable, trade and other payables, dividends payable and long-term debt. The fair values of these recognized financial instruments, excluding long-term debt, approximate their carrying value due to their short-term maturity. The carrying value of the Company's credit facility approximates fair value because the credit facility has a floating interest rate. The fair value of the Company's senior secured notes are disclosed in the 2018 second quarter interim condensed consolidated financial statements.

Credit risk

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

Liquidity risk

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

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

Market risk

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

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on a portion of its long-term debt whose rate is floating. Interest is calculated based on prime lending rates, BA or the LIBOR and is dependent on the nature of the borrowing. Interest rates are subject to change. No amount was drawn on the portion of long-term debt that is subject to a floating interest rate. The Company does not use interest rate hedges, fixed interest rate contracts or other similar derivative instruments to manage its exposure to interest rate fluctuations, but has chosen to issue US\$75.0 million in fixed rate senior secured notes which fixes interest exposure on a portion of the long-term debt.

Foreign exchange risk

The Company is exposed to foreign currency fluctuations as revenue and expenses derived from United States operations are denominated in United States dollars. The United States subsidiaries are subject to translation gains and losses on consolidation. The Company's Canadian operations purchase certain products in United States dollars. Foreign exchange gains and losses are included in net profit while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the Company's United States operations are included in OCI. The Company also holds United States dollar denominated debt which is used to manage the exposure to foreign exchange gains and losses arising from the translation of its United States functional currency operations included in OCI. The Company does not utilize foreign currency forward contracts or similar derivative instruments to manage its exposure to foreign currency fluctuations.

Selected Quarterly Financial Information

(\$ thousands, except per share amounts)	2018		2017 ⁽¹⁾				2016 ⁽¹⁾	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	147,550	120,571	132,062	140,903	123,696	100,147	110,896	113,167
Net profit	10,586	8,074	31,244	16,192	14,718	3,698	7,349	11,944
Net profit per share, basic and diluted (\$)	0.29	0.22	0.84	0.44	0.40	0.10	0.20	0.32
Dividends paid	4,749	4,229	4,229	3,858	3,673	3,673	3,673	3,673
Dividends per share, basic and diluted (\$)	0.128	0.114	0.114	0.104	0.099	0.099	0.099	0.099

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

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

- Increased usage and demand for Badger’s hydrovac services, particularly in the U.S., which is Badger’s largest market. The increase in customer demand has resulted in an increase in revenues, gross dollar direct costs, general and administrative expenses and Adjusted EBITDA;
- Normal course seasonality within Badger’s business as a result of the seasonal upswing in construction activity, the impact of which will typically result in higher activity levels in the second and third quarters, with reduced activity levels in the first and fourth quarters due to the normal course slow-down in certain northern markets during the winter construction season;
- Additional investments related to the manufacture of hydrovac units and funding an increase in working capital associated with the underlying growth in the business; and
- Updated U.S. income tax legislation, effective December 22, 2017, impacted Badger’s Q4 2017 deferred income taxes.

Key Financial Metrics and Other Operational Metrics

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

Revenue per Truck

Revenue per truck per month – quarterly average	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total	30,300	27,300	31,300	34,125	29,141	24,747	27,023	28,062

Fleet Summary

Number of Hydrovacs	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Canada	363	368	362	361	353	343	356	353
U.S.	827	786	747	720	703	688	668	675
Total	1,190	1,154	1,109	1,081	1,056	1,031	1,024	1,028

Marketing and Franchise Agreements

Number of Marketing and Franchise Agreements	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Canada	9 ⁽⁵⁾	10	10	10 ⁽³⁾	11 ⁽¹⁾	12	12	12
U.S.	4	4 ⁽⁴⁾	3	3	3 ⁽²⁾	4	4	5
Total	13	14	13	13	14	16	16	17

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

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

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

⁽⁴⁾ A new U.S. based franchise agreement was executed during the first quarter of 2018.

⁽⁵⁾ Badger purchased the assets of an operating partner to facilitate the operating partner's exit from the business.

Foreign Exchange Rates

1 USD:CAD	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Quarterly average	1.2911	1.2648	1.2713	1.2528	1.3457	1.3229	1.3340	1.3051
Period end	1.3168	1.2894	1.2545	1.2480	1.2977	1.3323	1.3426	1.3116

The average foreign exchange rate of 1 U.S. dollar to the Canadian dollar for the three months ended June 30, 2018 was 1.2911, and for the three months ended June 30, 2017 was 1.3457.

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

Accounting Policies

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

Critical Accounting Estimates and Judgements

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

Changes in Accounting Policies

IFRS 15 – Revenue from Contracts with Customers

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

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

IFRS 15 - Revenue from Contracts with Customers replaces: IAS 11 - Construction Contracts, IAS 18 - Revenue, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC-31 - Revenue – Barter Transactions Involving Advertising Services. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures.

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

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

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

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

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

Three Months Ended June 30, 2017

	Revenue	Direct Costs	Gross Profit	Gross Margin
Historical - reported under IAS 18	123,351	86,739	36,612	29.7%
Operating partner adjustments				
Less: Revenue reported under IAS 18 ⁽¹⁾	(12,043)		(12,043)	
Less: Payments to operating partners under IAS 18		(7,003)	7,003	
Add: Net revenue under IFRS 15 ⁽²⁾	5,039		5,039	
Third party adjustments				
Less: Revenue reported under IAS 18 ⁽³⁾	(1,776)		(1,776)	
Add: Revenue under IFRS 15 ⁽⁴⁾	9,125		9,125	
Add: Direct costs under IFRS 15 ⁽⁵⁾		7,348	(7,348)	
Reported under IFRS 15	123,696	87,084	36,612	29.6%
Net impact of IFRS 15 adoption	345	345	-	0.1%

Six Months Ended June 30, 2017

	Revenue	Direct Costs	Gross Profit	Gross Margin
Historical - reported under IAS 18	225,162	164,909	60,253	26.8%
Operating partner adjustments				
Less: Revenue reported under IAS 18 ⁽¹⁾	(24,534)		(24,534)	
Less: Payments to operating partners under IAS 18		(14,266)	14,266	
Add: Net revenue under IFRS 15 ⁽²⁾	10,267		10,267	
Third party adjustments				
Less: Revenue reported under IAS 18 ⁽³⁾	(2,674)		(2,674)	
Add: Revenue under IFRS 15 ⁽⁴⁾	15,622		15,622	
Add: Direct costs under IFRS 15 ⁽⁵⁾		12,947	(12,947)	
Reported under IFRS 15	223,843	163,590	60,253	26.9%
Net impact of IFRS 15 adoption	(1,319)	(1,319)	-	0.1%

Year Ended December 31, 2017

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

- (1) Operating partner revenue was reported gross as a component of revenue on the Consolidated Statement of Comprehensive Income under IAS 18.
- (2) As a result of the adoption of IFRS 15, revenue from operating partners is recorded net of payments to operating partners as a component of consolidated revenue on the Consolidated Statement of Comprehensive Income.
- (3) Revenue from third parties was reported net of direct costs as a component of revenue on the Consolidated Statement of Comprehensive income under IAS 18.
- (4) As a result of the adoption of IFRS 15, revenue from third party transactions is recorded gross as a component of revenue on the Consolidated Statement of Comprehensive Income.
- (5) As a result of the adoption of IFRS 15, direct costs from third party transactions is recorded gross as a component of direct costs on the Consolidated Statement of Comprehensive Income.
- (6) Payments to operating partners were reported gross as a component of direct costs on the Consolidated Statement of Comprehensive Income under IAS 18. Payments to operating partners of \$33.6 million as disclosed in Note 16 of the 2017 audited annual consolidated financial statements included \$30.6 million paid to operating partners, with the remaining balance related to fees paid to independent operators which will continue to be presented gross as a component of direct costs. Independent operators do not have a franchise agreement and the provision of services for independent operators is controlled by Badger Corporate.

IFRS 15 Post Adoption Supplemental Comparative Information Year Ended December 31

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

Quarterly - Year Ended December 31, 2017

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

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

IFRS 9 – *Financial Instruments*

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

The International Accounting Standards Board issued IFRS 9 – *Financial Instruments* introduces new requirements for classifying and measuring financial instruments. The standard is effective for fiscal years beginning on or after January 1, 2018. Adoption of the standard will impact the calculation of Badger's allowance for doubtful accounts with Badger recognizing the lifetime expected credit losses on the initial recognition of the related revenue. Badger has assessed the historical lifetime expected credit losses based on historical data to determine the expected future credit losses. Adoption of IFRS 9 on January 1, 2018, did not result in a material

change in the determination of Badger's anticipated credit losses and associated allowance for doubtful accounts. Consistent with the requirements of IFRS 9, Badger will assess the lifetime expected credit losses on an ongoing basis and will update its assumptions, if and when required, in future reporting periods.

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

Accounting Pronouncements

IFRS 16 – Leases

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

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

As a practical matter, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Badger intends to adopt the new standard on the effective date and is currently assessing the effect that the new standard will have on its presentation and disclosure requirements, which is expected to be completed during 2018.

Non-IFRS Financial Measures

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

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

Adjusted EBITDA is calculated as follows:

(\$ thousands)	Three months ended		Six months ended	
	June 30,		June 30,	
Adjusted EBITDA	2018	2017	2018	2017
Net profit	10,586	14,718	18,660	18,416
Add:				
Depreciation of property, plant and equipment	12,120	11,337	23,820	22,275
Share-based compensation expense	5,990	(2,529)	6,052	(416)
(Gain) loss on sale of property, plant and equipment	(191)	(5)	510	(39)
Finance cost	1,271	1,300	2,519	2,577
Foreign exchange loss (gain)	(288)	350	(638)	382
Income tax expense	8,973	6,933	11,981	8,766
Adjusted EBITDA	38,461	32,104	62,904	51,961

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended		Six months ended	
	June 30,		June 30,	
Adjusted EBITDA	2018	2017	2018	2017
Revenue	147,550	123,696	268,121	223,843
Less:				
Direct costs	101,467	87,084	191,224	163,590
General and administrative expense	7,622	4,508	13,993	8,292
Adjusted EBITDA	38,461	32,104	62,904	51,961

“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		Six months ended	
	June 30,		June 30,	
Adjusted EBITDA margin	2018	2017	2018	2017
Adjusted EBITDA	38,461	32,104	62,904	51,961
Revenue	147,550	123,696	268,121	223,843
Adjusted EBITDA margin	26.1%	26.0%	23.5%	23.1%

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

Compliance EBITDA is calculated as follows:

(\$ thousands)	Twelve months ended June 30,	
Compliance EBITDA	2018	2017
Net profit	66,098	37,708
Add:		
Depreciation of property, plant and equipment	47,003	43,891
Finance cost	5,465	4,903
Tax expense	8,988	21,699
Compliance EBITDA	127,554	108,201

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

Funded Debt is calculated as follows:

(\$ thousands)	June 30, 2018	December 31, 2017
Funded Debt		
Long-term debt	98,760	94,088
Current portion of long-term debt	-	-
Total debt	98,760	94,088
Add: issued letters of credit	3,506	3,325
Less: cash on hand ⁽¹⁾	(10,000)	(10,000)
Funded Debt	92,266	87,413

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

“**Tangible Net Worth**” consists of total shareholders’ equity less other comprehensive income subsequent to September 30, 2013, as adjusted for certain impairments 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)	June 30, 2018	December 31, 2017
Tangible Net Worth		
Shareholders’ equity	337,228	318,494
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	(28,200)	(18,888)
Less: intangible assets and goodwill	(9,853)	(9,479)
Tangible Net Worth	299,175	290,127

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

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

Changes in Internal Control over Financial Reporting

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

Inherent Limitations

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

Overview of Badger

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

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

Risk Factors

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

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

- Badger anticipates continued growth in its Canadian and U.S. markets and that the overall macro-economic environment in both Canada and the U.S. is anticipated to be supportive of this growth;
- Badger continues to see customer demand as a result of increased usage of hydrovac for non-destructive excavation;
- Badger expects to see improvements in revenue as a result of investments in developing its branch network and business development function;
- Badger anticipates that the number of new hydrovac builds for 2018 will be approximately 160 units to 200 units and that hydrovac retirements for 2018 will be in the range of 60 to 80 units;
- Badger anticipates that recent changes to U.S. income tax legislation will positively impact current income taxes;
- The timing, benefits and costs associated with Badger's Common Business Platform project;
- The ability and benefits of Badger to purchase and subsequently cancel up to 2,000,000 of its common shares under its NCIB;
- Badger's estimate of general and administrative expenses for 2018 and that the long-term target for general and administrative expenses remains at 4% of revenue on an annualized basis; and
- The cost to build a hydrovac may fluctuate due to production volume in the Red Deer manufacturing facility, cost of labour and materials and foreign currency as many materials are denominated or otherwise influenced by exchange rates.

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

- There will be customer demand for hydrovac services from infrastructure, construction, and oil and gas activity in North America;
- Badger will maintain relationships with current customers and develop successful relationships with new customers;

- Badger will collect customer payments in a timely manner;
- Badger will be able to compete effectively for the demand for its services;
- There will not be significant changes in profit margins due to pricing changes driven by market conditions, competition, regulatory factors or other unforeseen factors;
- The overall market for Badger's services will not be adversely affected by weather, natural disasters, global events, legislation changes, technological advances, economic disruption or other factors beyond Badger's control;
- Badger will execute its growth strategy including attracting and retaining key personnel;
- The recent changes to U.S. federal income tax legislation will be maintained;
- Badger will obtain all labour, parts and supplies necessary to complete the planned hydrovac build at the costs expected; and
- Badger will be able to complete and implement the Common Business Platform project within the expected time frame and in accordance with the expected budget.

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

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