



**Management's Discussion and Analysis**  
**FOR THE THREE AND NINE MONTHS ENDED**  
**SEPTEMBER 30, 2019**

**November 5, 2019**

## Management's Discussion and Analysis

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The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto of Badger Daylighting Ltd. (the "Company" or "Badger") for the three and nine months ended September 30, 2019. Readers should also refer to all previous public filings, including the Company's 2018 audited annual consolidated financial statements and notes thereto and the Annual Information Form for the year ended December 31, 2018, both of which may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A is dated and has been prepared taking into consideration information available to November 5, 2019. All references to "dollars" and "\$" are to the currency of Canada unless otherwise indicated. This MD&A includes forward-looking statements and assumptions. See "Cautionary Statements Regarding Forward-Looking Information and Statements" for additional details.

### Overview of Badger

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

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

## Financial Highlights

(\$ thousands, except revenue per truck per month ("RPT"), per share and share information)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 <sup>(2)(4)</sup>	2019	2018 <sup>(2)(4)</sup>
Revenue:				
Hydrovac service revenue	176,515	160,879	472,084	415,690
Other revenue	7,228	7,833	19,483	21,143
Total revenue	183,743	168,712	491,567	436,833
RPT - Consolidated (mixed currency) <sup>(1)</sup>	36,088	36,338	n/a	n/a
RPT - U.S. (U.S. dollars) <sup>(1)</sup>	39,110	39,071	n/a	n/a
RPT - Canada (Canadian dollars) <sup>(1)</sup>	28,423	29,970	n/a	n/a
Adjusted EBITDA <sup>(1)</sup>	50,109	50,945	122,607	113,849
Adjusted EBITDA per share, basic and diluted <sup>(1)(3)</sup>	\$1.41	\$1.37	\$3.37	\$3.07
Adjusted EBITDA margin <sup>(1)</sup>	27.3%	30.2%	24.9%	26.1%
Profit before income tax	34,735	35,046	58,384	65,687
Net profit	25,839	25,689	43,819	44,349
Net profit per share, basic and diluted <sup>(3)</sup>	\$0.73	\$0.69	\$1.20	\$1.20
Cash flow from operating activities before working capital adjustments	50,177	50,169	122,093	113,558
Cash flow from operating activities before working capital adjustments per share, basic and diluted <sup>(3)</sup>	\$1.41	\$1.35	\$3.35	\$3.06
Dividends paid	5,067	5,009	15,064	13,987
Weighted average common shares outstanding <sup>(3)(5)</sup>	35,472,696	37,100,681	36,421,889	37,100,681

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

(2) Certain of the comparative period revenue groupings and RPT comparatives have been reclassified to conform to the current period presentation and calculation. Refer to the Company's 2018 annual MD&A for additional details.

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

(4) IFRS 16 – Leases has been adopted on a prospective basis therefore prior year comparatives have not been restated. See "Changes in Accounting Policies" for additional details.

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

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

(\$ thousands, except per share information)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Cash flow from operating activities	21,421	22,001	70,961	67,186
Cash flow from operating activities per share, basic and diluted <sup>(2)</sup>	\$0.60	\$0.59	\$1.95	\$1.81

(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

### 2019 Third Quarter Financial and Operational Highlights

- Badger generated Adjusted EBITDA of \$50.1 million for the third quarter of 2019, consistent with the prior year comparative quarter of \$50.9 million. Adjusted EBITDA was driven by total revenue growth of 9% which was offset by lower gross profit margins and higher direct and general and administrative costs.
  - Revenue for the third quarter of 2019 of \$183.7 million was \$15.0 million, or 9% higher compared to \$168.7 million in the prior year comparative quarter, as ongoing revenue growth in the United States (“U.S.”) more than offset reduced revenue in the Canadian operations.
  - In the U.S. operations, revenue for the third quarter of 2019 was US\$110.8 million, US\$11.8 million or 12% higher than the prior year comparative quarter of US\$99.0 million. Revenue growth in Badger’s U.S. geographic and end use markets was attributable to increased customer demand as a result of the ongoing adoption of hydro excavation as the preferred method for non-destructive excavation.
  - Revenue growth in a select number of U.S. regions was more modest compared to the growth realized in the prior year comparative quarter as a result of reduced customer demand due primarily to a combination of slower general activity levels combined with the carry-over impact of regional weather conditions experienced in the second quarter of 2019, particularly in the Upper Midwest, in addition to lost work days as a result of Hurricane Dorian.
  - In Canada, revenue for the third quarter of 2019 of \$37.4 million was \$2.0 million, or 5% lower than the prior year comparative quarter with revenue of \$39.4 million. The decrease in revenue is due to reduced customer demand in Western Canada driven by a slowdown in oil and gas activity and the absence of a number of larger scale projects which benefitted the prior year quarter results which more than offset higher revenues in Eastern Canada.
  - Average hydrovac rates were consistent to modestly higher across the majority of the U.S. and Canadian markets compared to the prior year comparative quarter.
- RPT for the third quarter of 2019 was \$36,088 on a consolidated basis, consistent with the prior year comparative quarter of \$36,338. RPT in the U.S. operations was US\$39,110 compared to US\$39,071 in the prior year comparative quarter, with RPT in the Canadian operations of \$28,423 compared to \$29,970 in the prior year comparative quarter.
- Gross profit margin for the third quarter of 2019 was 32.8%, or 170 basis points lower than the prior year comparative quarter of 34.5%. Adjusted EBITDA margin for the third quarter of 2019 was 27.3%, or 290 basis points lower than the prior year comparative margin of 30.2%.
  - Gross profit margin in the third quarter of 2019 was impacted by higher labour and labour related 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 growth was modest relative to the prior year comparative quarter.
  - Adjusted EBITDA margin was impacted for the same reasons as gross profit margin combined with the impact of higher general and administrative expenses due to growth in the business and costs associated with the implementation of Badger’s enterprise resource planning system (“ERP”).
- Badger’s ERP implementation is proceeding well with a successful go-live for the Western operating region launched on October 1, 2019. The go-live for the remaining operating regions is planned throughout the fourth quarter of 2019. See “Common Business Platform Project” for additional details.
- During the third quarter of 2019, Badger placed 33 net hydrovacs into service, consisting of 55 new and 22 retired. See “Financial Outlook” for additional details.

- As at September 30, 2019, Badger had 1,323 total hydrovacs compared to 1,207 in the prior year comparative quarter and 1,221 as at December 31, 2018. See “Capital Resources” for additional details.
- Net profit for the third quarter of 2019 was \$25.8 million or \$0.73 per share compared to \$25.7 million or \$0.69 per share in the prior year comparative quarter. Net profit for the third quarter of 2019 was impacted by the same items as Adjusted EBITDA, in addition to higher depreciation expense, offset in part, by reduced share-based plan expense. Net profit per share on a quarter-over-quarter basis benefitted from a 4.4% reduction in the weighted average common shares outstanding as a result of common shares repurchased under the Company’s normal course issuer bid (“NCIB”) program.
- Badger’s 2019 financial outlook has been updated based on the actual 2019 third quarter financial results. The 2019 financial outlook has been adjusted to \$155 million to \$170 million of Adjusted EBITDA from the previously provided financial outlook of \$170 million to \$190 million. The hydrovac build rate for 2019 of between 190 to 220 units with retirements of 40 to 60 units is unchanged. See “Financial Outlook” for additional details.
- Badger is introducing a financial outlook for 2020 with Adjusted EBITDA of \$175 million to \$195 million. See “Financial Outlook” for additional details.
- Effective January 1, 2019, Badger adopted IFRS 16 - *Leases* on a prospective basis. The impact on the 2019 third quarter results was a reduction in direct operating costs of \$1.1 million with a corresponding improvement to gross profit margin. Offsetting the reduction in direct operating costs was an increase in depreciation expense of \$1.1 million and an increase in finance cost of \$0.1 million. See “Changes in Accounting Policies” for additional details.
- Badger continues to maintain a strong balance sheet. As at September 30, 2019, total debt less cash and cash equivalents was \$179.3 million, with a corresponding total debt less cash and cash equivalents to Compliance EBITDA ratio of 1.1:1, as calculated in accordance with the Company’s syndicated revolving credit facility.
- During the third quarter of 2019, pursuant to the Company’s NCIB, Badger purchased and cancelled 589,000 of its common shares at a weighted average price per share of \$43.23. See “Normal Course Issuer Bid” for additional details.

## **Financial Outlook**

Based on year-to-date financial results and existing and forecasted activity levels, Badger anticipates that its 2019 Adjusted EBITDA will be in the range of \$155 million to \$170 million compared to the previously provided 2019 financial outlook of \$170 million to \$190 million provided with the second quarter 2019 financial results and disclosure documents. The hydrovac build for 2019 of between 190 to 220 units with retirements of 40 to 60 units is unchanged from the previously provided guidance.

The reduction in forecasted Adjusted EBITDA for fiscal 2019 is due primarily to higher than anticipated general and administrative expenses in conjunction with lower than anticipated third quarter 2019 financial results. The 2019 financial outlook assumes continued growth in the majority of Badger’s end use markets and geographic areas, particularly within its U.S. operations, resulting in an increase in revenue. Badger anticipates that gross profit margin for 2019 will be lower than in 2018, due largely to, ongoing costs associated with the recruitment and training of operators and reduced labour efficiency, due in part, to adverse weather conditions experienced in the second and third quarters of 2019. RPT for 2019 is anticipated to be modestly lower than in 2018, particularly in the U.S. operations, as \$22.5 million in emergency response work completed during the third and fourth quarter of 2018 resulted in a one-time increase to Badger’s 2018 RPT. Emergency response work related to large scale natural disasters is not possible to predict and may not recur in 2019.

Badger's anticipates that its 2020 Adjusted EBITDA will be in the range of \$175 million to \$195 million with a hydrovac build of between 200 to 230 units with retirements of 50 to 70 units.

The 2020 financial outlook assumes continued growth in the majority of Badger's end use markets and geographic areas, particularly within its U.S. operations, resulting in an increase in revenue. Badger anticipates that gross profit margin and RPT for 2020 will be consistent with 2019. General and administrative expenses, as a percentage of revenue, for 2020 are anticipated to be lower than in 2019, as costs associated with the ERP implementation are not required in 2020. The 2020 financial outlook does not include the potential benefits, if any, of emergency response work related to large scale natural disasters.

Badger's financial outlook for both 2019 and 2020 assume that there will continue to be ongoing growth in the use of hydrovac for non-destructive excavation as a result of continued customer adoption, particularly within the U.S. markets. Badger expects to see improvements in revenue as a result of the scale of its extensive branch network combined with the ongoing benefits of sales and marketing related activities. The overall macro-economic environment in the U.S. is anticipated to be supportive of ongoing infrastructure and construction activity levels for the remainder of 2019 and throughout 2020, with a softer overall macro-economic environment anticipated in Canada, particularly in Western Canada. Oil and gas activity levels are anticipated to be consistent with 2018 levels within Badger's U.S. operations, but weaker in Canada in both 2019 and 2020 compared to 2018. Badger continues to see organic growth opportunities in the majority of its markets, although the ability to capture these opportunities may be partially limited by the availability of trained operators as the market for labour, particularly in certain oil and gas focused regions, continues to be challenging.

## **Results of Operations for the Three Months Ended September 30, 2019**

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### **Revenues**

Revenues of \$183.7 million for the third quarter of 2019 were 9% higher than the \$168.7 million generated during the prior year comparative quarter. The increase in revenue is attributable to the following:

- Revenue in the U.S. operations increased by 12% to US\$110.8 million for the third quarter of 2019 compared to US\$99.0 million in the prior year comparative quarter. Items impacting third quarter revenues within the U.S. operations include:
  - Continued revenue growth attributable to increased activity levels from both new and existing customers across the majority of Badger's U.S. geographic and end use market segments. Badger continues to experience strong revenue growth in the majority of its U.S. markets as the benefits and potential uses for hydrovac technology continue to be understood and adopted by Badger's existing and new customer base.
  - Revenue growth in a select number of regions was lower than the prior year comparative quarter as a result of reduced customer demand due primarily to a combination of slower general activity levels and the impact of weather. Operating conditions in a select number of regions were negatively impacted by the carry-over impact of record or near record precipitation levels experienced in the second quarter of 2019, particularly impacting operations in the Upper Midwest, combined with the disruption of Hurricane Dorian, both of which resulted in lost work days due to delays in various construction projects. In particular, Hurricane Dorian resulted in temporary operational inefficiencies throughout the majority of the U.S. East Coast, resulting in labour inefficiencies, as many construction projects were temporarily halted in advance of what was originally predicted to be a large scale weather event for the majority of the U.S. East Coast.

- Hydrovac rates in the U.S. operations were consistent to modestly higher than the prior year across the majority of markets.
- U.S. revenue converted to Canadian dollars was \$146.3 million in the third quarter of 2019, compared to \$129.3 million in the prior year comparative quarter, a 13% increase. The weighted average foreign currency rate used in the translation of U.S. dollar revenues to Canadian dollars for the third quarter of 2019 was CDN\$1.32 to US\$1.00, compared to CDN\$1.31 to US\$1.00 in the prior year.
- Revenue in the Canadian operations for the third quarter of 2019 of \$37.4 million was \$2.0 million or 5% lower than the prior year comparative quarter with revenue of \$39.4 million. The decrease in revenue is due to reduced customer demand in Western Canada, driven by a slowdown in oil and gas activity, and the absence of a number of larger scale projects which benefitted the prior quarter results. Reduced revenue in Western Canada was offset in part by higher revenues in Eastern Canada compared to the prior year quarter due to a combination of increased customer demand and improved operational performance.
  - Hydrovac rates in the Canadian operations were consistent to modestly higher than the prior year across the majority of markets.
- Revenue growth in both the U.S. and Canadian operations was limited in certain regions due to the availability of trained operators.
- Other services revenue for the third quarter of 2019 was \$7.2 million, \$0.6 million lower than the \$7.8 million generated in the prior year comparative quarter. The decrease in other services revenue was due to reduced customer demand in Badger's non-hydrovac related service lines, such as sewer flushing and industrial tank cleaning. Reduced demand was due in part to a slowdown in general activity levels, particularly in Western Canada.

Consolidated RPT for the third quarter of 2019 was \$36,088 compared to \$36,338 in the prior year comparative quarter. RPT in the U.S. operations in the third quarter of 2019 was US\$39,110 compared to US\$39,071 in the prior year comparative quarter, and for the Canadian operations was \$28,423 in the third quarter compared to \$29,970 in the prior year comparative quarter. RPT was consistent with the prior year comparative quarter as an increase in revenue and underlying customer activity levels was consistent with the growth in the hydrovac fleet, highlighting Badger's ability to successfully integrate new hydrovacs into the fleet. During the third quarter of 2019, Badger successfully integrated an additional 33 net new hydrovacs into its fleet; 116 net hydrovacs have been added to the fleet over the trailing twelve months.

Badger continues to actively focus on optimizing its fleet in order to drive continued operational and financial improvements by responding to changes in customer demand across its entire branch network. Badger is uniquely positioned to be able to respond to changes in customer service requirements due to its large hydrovac fleet and extensive branch network.

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

## Direct Costs

Direct costs for the third quarter of 2019 were \$123.5 million compared to \$110.5 million in the prior year comparative quarter. On a dollar basis, the increase in direct costs was driven by higher activity levels attributable to increased customer demand. As a percentage of revenue, direct costs for the third quarter of 2019 of 67.2% were modestly higher than the prior year comparative quarter of 65.5%.

Labour related costs as a percentage of revenue were higher than the prior year comparative quarter as a result of an increase in head count associated with operators and non-operator administrative support functions. Badger continues to actively recruit and train operators across its entire branch network in anticipation of both the seasonal increase inherent in the business combined with the overall growth in the business. With the third quarter typically being the peak quarter for construction related activity across the majority of markets across Canada and the U.S., it was important that Badger have a sufficient number of trained operators and the administrative support required to meet current and anticipated customer demand. Badger continues to actively manage its operator and non-operator labour and related costs, balancing the need for trained operators in advance of customer demand. In addition to the increase in costs associated with the recruitment and training of operators, labour as a percentage of revenue was negatively impacted by reduced labour efficiency in a number of geographic markets as a result of isolated adverse weather conditions noted in the discussion of revenues. Non-operator labour included in direct costs, which includes functions such as environmental, health and safety and sales and marketing, were modestly higher than the prior year quarter on a percentage of revenue basis due primarily to ongoing growth in the business. Costs related to fuel, insurance and repairs and maintenance were consistent with the prior year as a percentage of revenue. Also impacting direct costs was the adoption of IFRS 16 – *Leases*, details of which are summarized below.

Bad debt expense, which is included in direct costs, was \$1.4 million for the third quarter of 2019, compared to an expense of \$2.9 million in the prior year comparative quarter. The reduction in bad debt expense compared to the prior year quarter is due to the absence of a specific bad debt expense incurred in the prior year comparative quarter. Bad debt expense, as a percentage of revenue, was consistent with the prior year comparative quarter excluding the impact of the specific bad debt expense incurred in the prior year as noted above.

As disclosed in the first quarter of 2019, Badger prospectively adopted IFRS 16 – *Leases*. As a result of the prospective adoption of this standard, Badger's 2019 third quarter direct costs were approximately \$1.1 million lower than the prior year comparative period with a corresponding improvement to gross profit. Offsetting the reduction in direct costs was an increase in depreciation expenses of approximately \$1.1 million and an increase in finance cost of \$0.1 million. For additional details on the impact of the adoption of this standard see "Changes in Accounting Policies."

Badger continues to focus on active expense management and fleet optimization to mitigate higher costs due to general inflation and costs attributable to the growth in Badger's overall business in functions such as human resources, recruitment, business development, fleet, information technology and health and safety activities. Investments made in these areas of the business have resulted in increased scale within each of these functions and are essential to support increased activity levels. With the investments in these areas now completed, combined with the ongoing impact of the Common Business Platform project, the Company will aggressively seek to capture the operational benefits of the increased scale while also realizing a reduction in certain operating costs as a percentage of revenue.

## **Gross Profit**

Gross profit for the third quarter of 2019 was \$60.2 million compared to \$58.2 million in the prior year comparative quarter, with a corresponding gross profit margin of 32.8% for the third quarter compared to 34.5% in the prior year comparative quarter. Gross profit margin in the U.S. operations was 32.8% for the third quarter of 2019 compared to 35.5% for the prior year comparative quarter, with gross profit margin in the Canadian operations of 32.7% for the third quarter of 2019 compared to 31.1% in the prior year comparative quarter.

Gross profit margin in the U.S. operations was impacted by higher costs associated with the recruitment and training of operators, higher head count of non-operator support functions and reduced labour efficiency, offset in part by the impact of the adoption of IFRS 16 and the absence of bad debts recognized in the prior year comparative quarter, all of which were previously discussed. Gross profit margins in Canada were modestly higher than the prior year comparative quarter as operational improvements in the Eastern region and the impact of the adoption of IFRS 16 more than offset the impact of a challenging Western region. As previously noted, average hydrovac rates were consistent to modestly higher across the majority of the U.S. and Canadian markets compared to the prior year comparative quarter, and as such, did not have a significant impact on gross profit.

## **General and Administrative Expenses**

General and administrative expenses for the third quarter of 2019 were \$10.1 million compared to \$7.2 million in the prior year comparative quarter. As a percentage of revenue, general and administrative expenses were 5.5% in the third quarter of 2019 compared to 4.3% in the prior year comparative quarter. Consistent with the first and second quarters of 2019, the increase in general and administrative expenses as a percentage of revenue, and on a total dollar basis, is primarily the result of activities being undertaken to augment the administrative infrastructure in order to support the overall growth in Badger's business combined with the impact of operating both the legacy and new ERP systems. Incremental costs relate to activities directly and indirectly attributable to investments in technology, business process improvement initiatives, the Common Business Platform project, and the establishment of Badger's centralized hydrovac operator training center ("Badger University").

As previously disclosed, Badger's 2019 run rate for general and administrative expenses is anticipated to be above 2018 levels due largely to costs that are indirectly related to the Common Business Platform project such as investments in information technology infrastructure which were not originally planned as part of the project but which were more efficiently completed in conjunction with the project. In addition, incremental, but temporary costs associated with additional administrative resources to backfill internal positions as well as support the current and future growth of the business have been the primary drivers of the increase in general and administrative expenses.

Upon completion of the Common Business Platform project, Badger will seek to aggressively, but prudently, reduce temporary headcount and consulting costs directly attributable to the project, with the objective of general and administrative expenses as a percentage of revenue returning to normalized levels throughout 2020. During the first half of the fourth quarter of 2019, Badger began the initial process of reducing temporary headcount associated with the ERP implementation, the impact of which will have a modest impact on Badger's fourth quarter general and administrative expense with a more pronounced impact anticipated throughout 2020. Based on the current ERP implementation schedule and related cost reduction plan, Badger is targeting exiting 2020 with an annualized run rate for general and administrative expenses of approximately 5% of revenue, while continuing to focus on meeting the long-term target of 4% of revenue over time.

### **Depreciation of Property, Plant and Equipment and Right-of-Use Assets**

Depreciation expense was \$16.1 million for the third quarter of 2019 compared to \$13.1 million in the prior year comparative quarter. The increase in depreciation expense is the result of capital expenditures incurred during the previous four quarters combined with the impact of the adoption of IFRS 16. The adoption of IFRS 16 resulted in an increase of depreciation expense of approximately \$1.1 million in the third quarter of 2019.

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

Share-based compensation expense was a net recovery of \$2.4 million in the third quarter of 2019 compared to an expense of \$0.3 million in the prior year comparative quarter. The decrease in the expense is due primarily to the decrease in the market value of Badger's common shares during the third quarter of 2019. Share-based compensation expense will fluctuate based on the effects of the movement in Badger's share price, combined with the impact of normal course vesting of previously issued long-term incentive plan grants and the issuance, if any, of new long-term incentive plan grants.

### **Gain or Loss on Sale of Property, Plant and Equipment**

Gain on the sale of property, plant and equipment for the third quarter of 2019 was \$0.2 million compared to a loss of \$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 consists primarily of interest on the Company's senior secured notes, syndicated revolving credit facility ("Credit Facility"), standby fees on the Credit Facility and finance costs associated with lease liabilities, were \$1.9 million for the third quarter of 2019, \$0.8 million higher than the prior year comparative quarter of \$1.1 million. The increase in finance costs is primarily due to interest costs associated with lease liabilities which have been recognized effective January 1, 2019, in accordance with the prospective adoption of IFRS 16. In addition, finance costs were impacted by interest costs associated with debt obligations outstanding on the Company's Credit Facility.

As at September 30, 2019, the Company's debt obligations, excluding the impact of normal course operating leases and outstanding letters of credit, consisted of \$71.0 million drawn on the Company's Credit Facility, the US\$75.0 million senior secured notes and \$16.7 million in lease liabilities, all of which are further described herein.

## **Income Tax**

Total income tax expense for the third quarter of 2019 was \$8.9 million compared to \$9.3 million in the prior year comparative quarter. Included in the third quarter of 2019 total income tax expense is a current income tax expense of \$2.8 million and deferred income tax expense of \$6.1 million, compared to current income taxes of \$3.4 million and deferred income tax expense of \$5.9 million in the prior year comparative quarter.

Current income tax expense of \$2.8 million is comprised of \$2.7 million in U.S. current income taxes (Q3 2018 – \$0.6 million) and \$0.1 million in Canadian current income tax expense (Q3 2018 – \$2.8 million expense). The increase in U.S. current income tax expense and the reduction in Canadian current income tax expense is due primarily to changes in underlying taxable income.

Deferred income tax expense for the third quarter of 2019 was \$6.1 million compared to \$5.9 million in the prior year comparative quarter. The change in deferred income tax expense is due largely to U.S. bonus depreciation provisions which allow for a 100% deduction of hydrovacs and other eligible capital put into service in the U.S.

## **Net Profit**

Net profit for the third quarter of 2019 was \$25.8 million, consistent with the prior year comparative quarter with net profit of \$25.7 million. Net profit was impacted by higher revenues and gross profit, reduced shared-based plan expenses, offset by higher depreciation and general and administrative expenses, all of which are fully described previously in this MD&A.

## **Other Comprehensive Income**

Total other comprehensive income (loss) (“OCI”), which includes the effect of translating U.S. operations into Canadian dollars, and the offsetting translation of U.S. dollar denominated senior secured notes into Canadian dollars that are designated as a hedge of the U.S. operations, resulted in an OCI income of \$2.8 million for the third quarter of 2019 compared to loss of \$2.5 million in the prior year comparative quarter. The change in OCI for the third quarter of 2019 is the result of the U.S. dollar strengthening relative to the Canadian dollar throughout the quarter. OCI has no impact on Badger’s cash flow from operations or Adjusted EBITDA.

## **Liquidity and Dividends**

Cash flow from operating activities for the third quarter of 2019 was \$21.4 million, consistent with the prior year comparative quarter of \$22.0 million. Cash flow from operating activities was impacted by modestly higher net profit after the impact of certain non-cash adjustments, offset by higher cash tax related payments. See the consolidated statement of cash flows contained within Badger’s unaudited interim condensed consolidated financial statements for additional details. Cash flow from operating activities before non-cash working capital and other adjustments was \$50.2 million in the third quarter of 2019, consistent with the prior year comparative quarter of \$50.2 million as Adjusted EBITDA and other non-cash items were consistent with the prior year comparative 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 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 totaled \$103.8 million at September 30, 2019, compared to \$143.4 million at December 31, 2018. The change in working capital as at September 30, 2019, was driven by

an increase in trade receivables due to the seasonal increase in Badger's business as a result of the ramp up of the 2019 construction season, which was more than offset by the reduced cash and cash equivalents, due in part, to common shares repurchases made under the Company's normal course issuer bid. Working capital was also impacted by the reclassification of \$33.1 million (US\$25.0 million) of the Company's long-term debt to a current obligation in accordance with the repayment terms of the Company's senior secured notes.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totaled \$193.5 million at September 30, 2019, \$33.7 million higher than the balance at December 31, 2018, of \$159.8 million. The increase in trade receivables and other receivables is a result of revenue growth realized in the third quarter of 2019 due to a combination of organic growth and the seasonal impact of the 2019 construction season, offset in part, by the impact of a weaker U.S. dollar on the revaluation of U.S. denominated receivables. Included in total trade and other receivables at September 30, 2019, was \$7.7 million in accrued revenue compared to \$3.7 million at December 31, 2018. The increase in accrued revenue is directly due to the go-live of the ERP on October 1, 2019. In order to facilitate the go-live process, the cut-off for invoicing of services performed prior to September 30, 2019 was moved forward relative to historical standards. All accrued revenue at September 30, 2019, relates to services performed prior to September 30, 2019; accrued revenue is recognized when it meets the requirements of Badger's revenue recognition policy. Badger anticipates that accrued revenue for future reporting periods will return to normalized levels as the need to move forward internal invoicing time lines was specific to the October 1, 2019 ERP go-live.

As at September 30, 2019, 78% of Badger's trade receivables were aged 90 days or less, compared to 81% at December 31, 2018.

The Company uses its cash and cash equivalents to build additional hydrovac units, to fund day-to-day operations, pay dividends, repurchase common shares and for general corporate purposes. Badger assesses its need for general liquidity based on its cash flow from operating activities combined with the financial capacity available under its Credit Facility. Badger's access to liquidity, through a combination of cash flows from operating activities and its existing Credit Facility, is sufficient to meet the existing operational and capital expenditures of the business. Cash flows from operating activities are subject to variations and risks associated with the normal course operations of the business, including the impact of the seasonality within the business and the normal course timing and collection of working capital. See "Financing" for a summary of the key terms, conditions and unutilized capacity of the Company's Credit Facility.

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

## Capital Resources

### Investing

Badger invested \$37.8 million in total capital expenditures for the third quarter in 2019, compared to \$22.3 million in the prior year comparative quarter. The majority of capital expenditures during the third quarter of 2019 related to the production of hydrovacs.

For the third quarter of 2019, Badger completed 55 hydrovacs, compared to 51 hydrovacs in the third quarter of 2018. See “Financial Outlook” for additional details on Badger’s 2019 anticipated hydrovac build and retirements.

### Capital Expenditures

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Hydrovac completed units and work-in-progress	31,472	21,153	71,965	66,098
Other vehicles and trailers	3,341	851	4,402	4,712
Buildings	-	6	-	28
Other	1,852	243	2,848	711
<b>Total expenditures of property, plant and equipment</b>	<b>36,665</b>	<b>22,253</b>	<b>79,215</b>	<b>71,549</b>
Upfront payments for right-of-use assets <sup>(1)</sup>	1,133	-	4,082	-
<b>Total capital expenditures</b>	<b>37,798</b>	<b>22,253</b>	<b>83,297</b>	<b>71,549</b>

<sup>(1)</sup> Upfront payments for right-of-use assets relate to the Company’s leasing of light-duty trucks. See “IFRS 16 - Leases” for additional details.

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 placed into services.

The cost to build a hydrovac will fluctuate on an annual basis due to factors such as: the number of hydrovac units built; the costs of chassis, labour and material costs; 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 the Company’s 2018 annual MD&A.

Badger is currently in the initial phase of expanding its U.S. administrative head office in conjunction with the formation of Badger University, both of which will be located at Badger’s existing U.S. administrative head office in Brownsburg, Indiana, a suburb of Indianapolis, Indiana.

## **Common Business Platform Project**

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

The Common Business Platform commenced during the second quarter of 2018. Badger originally anticipated that the total project will be implemented over a two-year period with the first components being available for use in the second half of 2019. The Common Business Platform has an estimated total cost of \$20 to \$25 million. The project continues to be on budget, with total costs expected to be towards the higher end of the range. Of the total costs, approximately 85% is anticipated to be capital (intangible asset) and 15% anticipated to be included in operating costs. Approximately 25% of the total costs associated with the project were incurred in 2018 which is consistent with Badger's previously provided disclosure. The remaining costs of the project are anticipated to be primarily incurred in 2019.

During the third quarter of 2019, activities related to the Common Business Platform were primarily focused on finalization of the configuration and integration of the ERP platform, in combination with user acceptance testing and related training activities to facilitate the go-live of the ERP throughout the fourth quarter of 2019.

On October 1, 2019, the ERP completed a successful go-live in the Western operating region, with the Central and Eastern operating regions scheduled to go-live on a staggered basis throughout the fourth quarter of 2019. The ERP system is anticipated to be fully operational across the entire business on or before December 31, 2019. Upon the successful integration of the ERP across the entire business, Badger will continue to centralize certain administrative functions into its shared financial and operations service center, located in Brownsburg, Indiana, ensuring that the operational and financial benefits that the ERP project will facilitate are captured in a timely manner. In addition, the Company will seek to aggressively, but prudently, reduce temporary headcount and consulting costs directly attributable to the project upon the successful go-live and integration of the ERP project.

Total expenditures incurred during the third quarter of 2019, were \$6.1 million, with \$0.9 million included in general and administrative expenses and \$5.2 million capitalized and categorized as a component of intangible assets. On a cumulative basis, total expenditures incurred on the project are \$23.2 million, with \$2.1 million included in general and administrative expenses and \$21.1 million capitalized and categorized as a component of intangible assets.

Effective October 1, 2019, in conjunction with the go-live of the ERP, the majority of expenditures related to the project will be expensed and included in both Adjusted EBITDA and net profit.

## Financing

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### **Syndicated Revolving Credit Facility**

On September 30, 2019, the Company completed an increase and extension of its Credit Facility with a syndicate of five lenders. The updated Credit Facility, which is \$300.0 million in aggregate Canadian dollars, 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 Credit Facility, which is a five-year term, matures on September 30, 2024. Badger has the flexibility to expand the Credit Facility, subject to approval by the lenders, by an additional \$150.0 million Canadian dollars. Badger maintains the Credit Facility for general corporate and liquidity purposes, in addition to financing requirements, if any, related to Badger's capital expenditure requirements. The increase and extension of the Credit Facility completed on September 30, 2019, has 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 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. 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. The Credit Facility requires that the Company maintain a Total Debt to Compliance EBITDA ratio of no greater than 4.0:1.

As at September 30, 2019, the Company had \$71.0 million outstanding on its Credit Facility (December 31, 2018 - nil) and had issued letters of credit of \$4.5 million (December 31, 2018 - \$3.9 million). The outstanding letters of credit, which reduce the amount of available credit under the Credit Facility, support the U.S. insurance program and certain other performance bonds.

As at September 30, 2019, the Company had available \$224.5 million (December 31, 2018 - \$143.8 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 (\$99.3 million Canadian equivalent as at September 30, 2019) 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. 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 September 30, 2019, the Company had \$16.7 million in lease liabilities (December 31, 2018 – nil) 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.

There is no comparative lease liability as at December 31, 2018, as the Company has adopted IFRS 16 effective January 1, 2019, on a prospective basis. For additional details on the impact of the adoption of this standard see "Changes in Accounting Policies".

## Compliance

Under the terms of the Credit Facility and the senior secured notes, the Company must comply with certain financial and non-financial covenants, as defined by the respective credit agreements. The Company's significant financial covenants and the summary of the compliance with these covenants are detailed in the summary below.

Select Financial covenants <sup>(1)(2)(3)(4)(5)</sup>	September 30, 2019	December 31, 2018	Threshold
Total Debt to Compliance EBITDA Credit Facility	1.1:1	0.6:1	4.00:1 max
Total Debt to Compliance EBITDA Senior Secured Notes	1.2:1	0.6:1	2.75:1 max
Interest Coverage Ratio Credit Facility	26.6:1	30.9:1	3.00:1 min
Interest Coverage Ratio Senior Secured Notes	25.4:1	30.9:1	3.00:1 min
Tangible Net Worth	\$273.9 million	\$314.1 million	\$195.0 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 September 30, 2019, calculated as \$179.3 million in Total Debt divided by \$162.4 million of Compliance EBITDA and for December 31, 2018, calculated as \$96.2 million in Funded Debt divided by \$151.5 million of Compliance EBITDA.
- (3) Total Debt to Compliance EBITDA senior secured notes as at September 30, 2019, calculated as \$181.5 million in Total Debt divided by \$154.7 million of Compliance EBITDA and for December 31, 2018, calculated as \$96.2 million in Funded Debt divided by \$151.5 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 September 30, 2019, calculated as \$162.4 million in Compliance EBITDA divided by \$6.1 million in interest expense and for the twelve months ended December 31, 2018, calculated as \$151.5 million in Compliance EBITDA divided by \$4.9 million in interest expense. Interest expense is calculated in accordance with IFRS on a trailing 12-month basis.
- (5) The Interest Coverage Ratio Senior Secure Notes is calculated as Compliance EBITDA divided by interest expense. For the twelve months ended September 30, 2019, calculated as \$154.7 million in Compliance EBITDA divided by \$6.1 million in interest expense and for the twelve months ended December 31, 2018, calculated as \$151.5 million in Compliance EBITDA divided by \$4.9 million in interest expense. Interest expense is calculated in accordance with IFRS on a trailing 12-month basis.

Throughout the third quarter of 2019, and as at September 30, 2019, the Company was in compliance with the above noted covenants and all other covenants. For additional details on the Credit Facility and the senior secured notes, including the financial and non-financial covenants, see the Company's 2018 audited consolidated financial statements and the Company's 2018 Annual Information Form.

## Share Capital

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As at September 30, 2019, the number of common shares outstanding was 35,153,738 (December 31, 2018 – 36,582,738). The weighted average common shares outstanding for the three and nine months ended September 30, 2019, was 35,472,696 and 36,421,889 respectively (December 31, 2018 – 37,083,766).

As at November 5, 2019, the number of common shares outstanding was 35,098,738. Badger does not currently have any material financial instruments which can be converted into additional common shares.

See the Company's 2019 interim condensed consolidated financial statements and "Normal Course Issuer Bid" for additional details on changes to share capital.

## Normal Course Issuer Bid

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On May 13, 2019, the Board of Directors approved the Company to enter into a NCIB program of up to 2,000,000 common shares 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. The Company may acquire up to 2,000,000 common shares during the period commencing on May 21, 2019, and ending May 20, 2020, or such earlier date on which the Company completes its purchases of common shares under the NCIB, or terminates the NCIB at its option.

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

For the three months ended September 30, 2019, pursuant to the NCIB, the Company purchased and cancelled 589,000 common shares at a weighted average price per share of \$43.23. In addition, the Company purchased 10,000 common shares in the last two trading days of the third quarter at a weighted average price per share of \$40.81 which were settled and cancelled subsequent to September 30, 2019. On a cumulative basis, since May 21, 2019 to the period ended September 30, 2019, the Company has purchased and cancelled 725,700 common shares at a weighted average price per share of \$44.03 under the current NCIB. On a cumulative basis, since the fourth quarter of 2018 to the period ended September 30, 2019, the Company has purchased and cancelled 1,987,768 common shares at a weighted average price per share of \$36.90.

For the period October 1, 2019, through November 5, 2019, the Company purchased and cancelled 45,000 common shares at a weighted average price per share of \$39.01.

## **Contractual Obligations**

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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 the financial capacity available under its Credit Facility, to fund its contractual obligations.

## **Financial Instruments and Risk Management**

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### **Fair values**

The Company's financial instruments recognized on the consolidated statements of financial position consist of cash and cash equivalents, trade and other receivables, income taxes receivable, trade and other payables, dividends payable, income taxes payable, 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 2019 third quarter unaudited interim condensed consolidated financial statements and the 2018 audited annual consolidated financial statements.

### **Credit risk**

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

### **Liquidity risk**

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

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

### **Market risk**

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

#### *Interest rate risk*

The Company is exposed to interest rate risk in relation to interest expense on a portion of its long-term debt whose rate is floating. Interest is calculated based on prime lending rates, banker's acceptance rates (BA) or the London interbank offered rate (LIBOR) and is dependent on the nature of the borrowing. Interest rates are subject to change. As at September 30, 2019, the Company had \$71.0 million drawn on its 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 chosen to issue US\$75.0 million in fixed rate senior secured notes which fixes interest exposure on the Company's long-term debt.

#### *Foreign exchange risk*

The Company is exposed to foreign currency fluctuations as revenue and expenses derived from United States operations are denominated in United States dollars. The United States subsidiaries are subject to translation gains and losses on consolidation. The Company's Canadian operations purchase certain products in United States dollars. Foreign exchange gains and losses are included in net profit while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the Company's United States operations are included in OCI. The Company also holds United States dollar denominated debt, the US\$75.0 million fixed rate senior secured notes, which are used to manage, in part, the exposure to foreign exchange gains and losses arising from the translation of its United States functional currency operations included in OCI. The Company does not utilize foreign currency forward contracts or similar derivative instruments to manage its exposure to foreign currency fluctuations.

#### **Selected Quarterly Financial Information**

(\$ thousands, except per share amounts)	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	<b>183,743</b>	161,210	146,614	178,609	168,712	147,550	120,571	132,062
Net profit	<b>25,839</b>	11,949	6,031	23,468	25,689	10,586	8,074	31,244
Net profit per share, basic and diluted (\$)	<b>\$0.73</b>	\$0.33	\$0.16	\$0.63	\$0.69	\$0.29	\$0.22	\$0.84
Dividends paid	<b>5,067</b>	5,112	4,885	5,009	5,009	4,749	4,229	4,229
Dividends per share, basic and diluted (\$)	<b>\$0.140</b>	\$0.140	\$0.135	\$0.135	\$0.135	\$0.128	\$0.114	\$0.114

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

- General improvements in economic growth and overall macro-economic conditions in both the 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 resulted in an increase in revenues, gross dollar direct costs, general and administrative expenses and Adjusted EBITDA;
- 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 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;
- Finalization of income tax benefits associated with transfer pricing activities for the 2009 through 2013 taxation years in the second quarter of 2018; and
- Updated U.S. income tax legislation, effective December 22, 2017, impacted Badger's 2018 current income tax expense and deferred income taxes in the fourth quarter of 2017.

## Key Financial Metrics and Other Operational Metrics

“Revenue per truck per month” (RPT) is a measure of hydrovac fleet utilization. It is calculated using hydrovac and hydrovac related revenue only. RPT is calculated on both a consolidated basis and for each geographic segment by dividing hydrovac and hydrovac related revenue for each segment, in the respective local currency, by the average number of hydrovacs in the segment during the period.

### Revenue per truck per month – United States

	Three months ended September 30,	
	2019	2018
Total revenue	146,335	129,300
Less: Other revenue	1,284	789
Hydrovac revenue	145,051	128,511
Foreign exchange rate <sup>(1)</sup>	1.3208	1.3068
Hydrovac revenue - U.S. equivalent	109,821	98,341
Average hydrovacs <sup>(2)</sup>	936	839
<b>RPT (U.S. dollars) <sup>(3)</sup></b>	<b>39,110</b>	<b>39,071</b>

### Revenue per truck per month – Canada

	Three months ended September 30,	
	2019	2018
Total revenue	37,408	39,412
Less: Other revenue	5,944	7,044
Hydrovac revenue	31,464	32,368
Average hydrovacs <sup>(2)</sup>	369	360
<b>RPT <sup>(3)</sup></b>	<b>28,423</b>	<b>29,970</b>

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

	Three months ended September 30,	
	2019	2018
Hydrovac revenue - U.S.	109,821	98,341
Hydrovac revenue - Canada	31,464	32,368
Total hydrovac revenue	141,285	130,709
Average hydrovacs <sup>(2)</sup>	1,305	1,199
<b>RPT <sup>(3)</sup></b>	<b>36,088</b>	<b>36,338</b>

<sup>(1)</sup> Foreign exchange rate calculated on a weighted average basis for the respective period. See “Foreign Exchange Rates” for additional details.

<sup>(2)</sup> See “Fleet Summaries” for additional details.

<sup>(3)</sup> Revenue per truck per month is calculated by taking hydrovac revenue divided by the number of average trucks for the period and further divided by the number of months in the respective period, being three months for a quarter and twelve months for an annual period.

## Fleet Summaries

### Number of hydrovacs at period end

	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Canada	371	366	357	355	356	363	368	362
U.S.	949	922	884	866	851	827	786	747
	<b>1,320</b>	1,288	1,241	1,221	1,207	1,190	1,154	1,109
Hydrovac operator training center <sup>(1)</sup>	3	2	-	-	-	-	-	-
Total	<b>1,323</b>	1,290	1,241	1,221	1,207	1,190	1,154	1,109

<sup>(1)</sup> Designates 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 <sup>(1)</sup>

	2019			2018				2017		
	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4
Canada	369	362	356	359	356	360	366	365	359	362
U.S.	936	903	875	807	859	839	807	767	708	734
Total	<b>1,305</b>	1,265	1,231	1,166	1,215	1,199	1,173	1,132	1,067	1,096

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

## Marketing and Franchise Agreements

Number of Marketing and Franchise Agreements	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Canada	14 <sup>(5)</sup>	11 <sup>(4)</sup>	10 <sup>(3)</sup>	9	9	9 <sup>(2)</sup>	10	10
U.S.	3 <sup>(6)</sup>	4	4	4	4	4	4 <sup>(1)</sup>	3

<sup>(1)</sup> A new U.S. based franchise agreement was executed during the first quarter of 2018.

<sup>(2)</sup> Badger purchased the assets of an operating partner to facilitate the operating partner's exit from the business.

<sup>(3)</sup> A new Canadian based operating partner agreement was executed during the first quarter of 2019.

<sup>(4)</sup> A new Canadian based operating partner agreement was executed during the second quarter of 2019.

<sup>(5)</sup> Three new Canadian based operating partner agreements were executed during the third quarter of 2019.

<sup>(6)</sup> Badger purchased the assets of a U.S. based franchisee to facilitate the franchisee's exit from the business.

## Foreign Exchange Rates

1 USD:CAD	2019			2018				2017		
	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4
Period weighted average <sup>(1)</sup>	<b>1.3208</b>	1.3374	1.3296	1.2992	1.3191	1.3068	1.2917	1.2663	1.2986	1.2753
Period end	<b>1.3243</b>	1.3087	1.3363	1.3642	1.3642	1.2945	1.3168	1.2894	1.2545	1.2545

<sup>(1)</sup> 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 of property, plant and equipment, and gains and losses on foreign exchange. Adjusted EBITDA is a measure of the Company’s operating profitability and is therefore useful to management and investors as it provides improved continuity with respect to the comparison of operating results over time. Adjusted EBITDA provides an indication of the results generated by the Company’s principal business activities prior to how these activities are financed, the results are taxed in various jurisdictions, and assets are amortized. In addition, Adjusted EBITDA excludes gains and losses on sale of property, plant and equipment as these gains and losses are considered incidental and secondary to the principal business activities, it excludes gains and losses on foreign exchange, as such gains and losses can vary significantly based on factors beyond the Company’s control, and it excludes share-based compensation as these expenses can vary significantly with changes in the price of the Company’s common shares.

Adjusted EBITDA is calculated as follows:

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
<b>Adjusted EBITDA</b>	<b>2019</b>	2018	<b>2019</b>	2018
Net profit	25,839	25,689	43,819	44,349
Add:				
Depreciation of property, plant and equipment	16,125	13,138	46,214	36,958
Share-based compensation expense	(2,408)	320	12,931	6,372
Loss (gain) on sale of property, plant and equipment	(170)	434	(390)	944
Finance cost	1,910	1,117	4,882	3,636
Foreign exchange loss (gain)	(83)	890	586	252
Income tax expense	8,896	9,357	14,565	21,338
<b>Adjusted EBITDA</b>	<b>50,109</b>	50,945	<b>122,607</b>	113,849

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
<b>Adjusted EBITDA</b>	<b>2019</b>	2018	<b>2019</b>	2018
Revenue	183,743	168,712	491,567	436,833
Less:				
Direct costs	123,506	110,519	338,185	301,743
General and administrative expense	10,128	7,248	30,775	21,241
<b>Adjusted EBITDA</b>	<b>50,109</b>	50,945	<b>122,607</b>	113,849

“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		Nine months ended	
	September 30,		September 30,	
Adjusted EBITDA margin	2019	2018	2019	2018
Adjusted EBITDA	50,109	50,945	122,607	113,849
Revenue	183,743	168,712	491,567	436,833
<b>Adjusted EBITDA margin</b>	<b>27.3%</b>	<b>30.2%</b>	<b>24.9%</b>	<b>26.1%</b>

“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 September 30,	
Compliance EBITDA	2019	2018
Net profit	67,287	75,596
Add:		
Depreciation of property, plant and equipment	58,252	48,900
Finance cost	6,138	4,889
Income tax expense	23,044	9,791
<b>Compliance EBITDA – for purposes of senior secured notes</b>	<b>154,721</b>	<b>139,176</b>
Add:		
Foreign currency revaluations	21	-
Gain on sale of property, plant and equipment	(594)	-
Share-based payments	8,296	-
<b>Compliance EBITDA – for purposes of Credit Facility <sup>(1)</sup></b>	<b>162,444</b>	<b>139,176</b>

<sup>(1)</sup> The calculation of Compliance EBITDA for purposes of the Credit Facility for the twelve months ended September 30, 2019, is in accordance with the requirements of the updated Credit Facility which was executed on September 30, 2019.

“**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.

Funded Debt is calculated as follows:

(\$ thousands)	September 30, 2019	December 31, 2018
<b>Total Debt</b>		
Long-term debt	66,215	102,315
Current portion of long-term debt	33,108	-
Borrowings under credit facility	71,000	-
Lease liability <sup>(1)</sup>	11,165	-
Current portion of lease liability <sup>(1)</sup>	5,580	-
Total obligations	187,068	102,315
Add: issued letters of credit	4,473	3,856
Less: cash on hand up to \$10.0 million <sup>(2)</sup>	(10,000)	(10,000)
<b>Total Debt – for purposes of senior secured notes</b>	<b>181,541</b>	<b>96,171</b>
Less: cash on hand greater than \$10.0 million <sup>(2)</sup>	(2,207)	-
<b>Total Debt – for purposes of Credit Facility <sup>(3)</sup></b>	<b>179,334</b>	<b>96,171</b>

<sup>(1)</sup> See “IFRS 16 – Leases” for additional details.

<sup>(2)</sup> Badger may deduct certain cash on hand in the calculation of Total Debt in accordance with the requirements of its credit facilities. Effective September 30, 2019, the Credit Facility allows 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.

<sup>(3)</sup> The calculation of Total Debt for purposes of the Credit Facility for the period ended September 30, 2019, is in accordance with the requirements of the updated Credit Facility which was executed on September 30, 2019.

“**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)	September 30, 2019	December 31, 2018
<b>Tangible Net Worth</b>		
Shareholders equity	335,837	366,502
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	(31,060)	(37,201)
Less: intangible assets and goodwill	(30,862)	(15,212)
<b>Tangible Net Worth</b>	<b>273,915</b>	<b>314,089</b>

## Changes in Accounting Policies

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### IFRS 16 – Leases

The International Accounting Standards Board issued IFRS 16 – *Leases*, superseding the existing standard, IAS 17 – *Leases* and IFRIC 4 – *Determining whether an arrangement contains a lease*. The standard is in effect for fiscal years beginning on or after January 1, 2019. 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, in that 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 remains largely the same as under IAS 17.

Effective January 1, 2019, the Company adopted IFRS 16 on a prospective basis, using the modified retrospective approach and accordingly the comparative financial information presented for 2018 has not been restated. A summary of the impact on the opening consolidated statement of financial position as at January 1, 2019, is as follows:

- Right-of-use assets of \$14.8 million recognized;
- Lease liability of \$14.8 million recognized; and
- Retained earnings adjusted by \$0.3 million.

In addition to the impact summarized above, \$3.5 million in light-duty vehicle leases have been reclassified to right-of-use assets from their previous presentation as a component of property, plant and equipment. There is no offsetting lease liability related to light-duty vehicle leases, as the full consideration of the underlying lease is paid at the inception of the lease.

A summary of the updated accounting policy related to leases as a result of the adoption of IFRS 16 can be found in the Company's 2019 third quarter interim condensed consolidated financial statements.

## **Critical Accounting Policies and Estimates**

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The Company's significant accounting policies are set out in Note 4 of the 2018 audited annual consolidated financial statements. Additionally refer to the Company's unaudited interim condensed consolidated financial statements for details on accounting policy changes adopted by the Company on, or after, December 31, 2018. Certain of these accounting policies, as well as estimates made by management in applying such policies, are recognized as critical because they require management to make subjective or complex judgements about matters that are inherently uncertain. The Company's critical accounting estimates, as detailed in the 2018 annual MD&A relate to: useful lives of property, plant and equipment; depreciation; income taxes; allowance for doubtful accounts; determining cash generating units; impairment of non-financial assets; intangible assets; goodwill; and functional currency.

In the preparation of the Company's unaudited interim condensed 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 judgements 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 interim 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 2018 audited annual consolidated financial statements.

## **Disclosure Controls and Procedures and Internal Control Over Financial Reporting**

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### **Disclosure Controls and Procedures**

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

### **Internal Control over Financial Reporting**

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

### **Changes in Internal Control over Financial Reporting**

There were no changes to Badger's internal control over financial reporting in the third quarter of 2019.

### **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.

## **Risk Factors**

A comprehensive listing of the Company's risk factors is set out in the Company's 2018 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, 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 overall growth in its business, particularly in its U.S. markets;
- Badger anticipates that the overall macro-economic environment in the U.S. is anticipated to be supportive of ongoing infrastructure and construction activity levels for the remainder of 2019 and into 2020, with a softer overall macro-economic environment anticipated in Canada, particularly in Western Canada;
- Badger anticipates that oil and gas activity levels for 2019 and 2020 will be consistent with 2018 levels within its U.S. operations but weaker in Canada in 2019 and 2020 compared to 2018;
- Badger continues to see customer demand as a result of increased usage of hydrovac for non-destructive excavation;
- Badger expects to see improvements in revenue as a result of investments in developing its branch network and business development function;
- The benefits, if any, that Badger's operational scale creates related to financial and operating performance;
- Badger anticipates that its Adjusted EBITDA for 2019 will be in the range of \$155 million to \$170 million and for 2020 will be in the range of \$175 million to \$195 million;
- Badger anticipates that the number of new hydrovac builds for 2019 will be approximately 190 to 220 units and that hydrovac retirements for 2019 will be in the range of 40 to 60 units;
- Badger anticipates that the number of new hydrovac builds for 2020 will be approximately 200 to 230 units and that hydrovac retirements for 2020 will be in the range of 50 to 70 units;
- Badger anticipates that gross profit margin and RPT for 2019 will be lower than in 2018;
- Badger anticipates that gross profit margin and RPT for 2020 will be consistent with 2019;
- The timing, benefits and costs associated with Badger's Common Business Platform project, including the

impact on general and administrative expenses;

- Badger’s estimated 2019, 2020 and long-term target for general and administrative expenses as a percentage of revenue on an annualized basis and its ability to achieve such targets through measures such as reducing headcount and consulting costs attributable to the Common Business Platform project;
- The ability and benefits of Badger to purchase and subsequently cancel up to 2,000,000 of its common shares under its NCIB;
- The timing and benefits associated with the expansion of Badger’s U.S. finance center and its centralized hydrovac operator training center; and
- The cost to build a hydrovac may fluctuate due to production volume, the cost of labour and materials and foreign currency as many materials are denominated or otherwise influenced by exchange rates.

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

- There will be customer demand for hydrovac services from infrastructure, construction, and oil and gas activity in North America;
- Badger will maintain relationships with current customers and develop successful relationships with new customers;
- Badger will collect customer payments in a timely manner;
- Badger will be able to compete effectively for the demand for its services;
- There will not be significant changes in profit margins due to pricing changes driven by market conditions, competition, regulatory factors or other unforeseen factors;
- The overall market for Badger’s services will not be adversely affected by weather, natural disasters, global events, legislation changes, technological advances, economic disruption or other factors beyond Badger’s control;
- Badger will execute its growth strategy including attracting and retaining key personnel;
- Badger will obtain all labour, parts and supplies necessary to complete the planned hydrovac build at the costs expected; and
- Badger will be able to complete and implement the Common Business Platform project within the expected time frame and in accordance with the expected budget.

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

Any future orientated financial information and financial outlook information (collectively, “FOFI”) contained in this MD&A, as such terms are defined by applicable securities laws, is provided for the purpose of providing information about management’s current expectations and plans relating to the future and is subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs. Management believes that the FOFI has been prepared on a reasonable basis, reflecting best estimates and judgments; however, actual results of the Company’s operations and financial outcomes may vary from the amounts set forth herein. FOFI

contained in this MD&A was made as of the date of this MD&A and the Company does not undertake any obligation to publicly update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. Readers are cautioned that any FOFI contained herein should not be used for purposes other than those for which it has been disclosed herein.

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