BADGER DAYLIGHTING™

Management's Discussion and Analysis

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

August 6, 2019

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, 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.

This MD&A is dated and has been prepared taking into consideration information available to August 6, 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

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 June 30, 2019**	**Three months ended June 30,** 2018[2][4]	**Six months ended June 30, 2019**	**Six months ended June 30,** 2018[2][4]
Revenue:				
Hydrovac service revenue	**154,355**	139,807	**295,569**	254,811
Other revenue	**6,855**	7,743	**12,255**	13,310
Total revenue	**161,210**	147,550	**307,824**	268,121
RPT - Consolidated (mixed currency)[1]	**32,265**	32,625	**n/a**	n/a
RPT- U.S. (U.S. dollars)[1]	**34,910**	35,400	**n/a**	n/a
RPT- Canada (Canadian dollars)[1]	**25,667**	26,506	**n/a**	n/a
Adjusted EBITDA[1]	**39,224**	38,461	**72,498**	62,904
Adjusted EBITDA per share, basic and diluted[1][3]	**$1.09**	$1.04	**$2.02**	$1.70
Adjusted EBITDA margin[1]	**24.3%**	26.1%	**23.6%**	23.5%
Profit before income tax	**15,279**	19,559	**23,649**	30,641
Net profit	**11,949**	10,586	**17,980**	18,660
Net profit per share, basic and diluted[3]	**$0.33**	$0.29	**$0.50**	$0.50
Cash flow from operating activities before working capital adjustments	**39,284**	38,710	**71,916**	63,389
Cash flow from operating activities before working capital adjustments per share, basic and diluted[3]	**$1.10**	$1.04	**$2.00**	$1.71
Dividends paid	**5,112**	4,749	**9,997**	8,978
Weighted average common shares outstanding[3][5]	**35,854,547**	37,100,681	**35,937,865**	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 [1]

($ thousands, except per share information)	**Three months ended June 30, 2019**	**Three months ended June 30,** 2018	**Six months ended June 30, 2019**	**Six months ended June 30,** 2018
Cash flow from operating activities	**13,351**	12,867	**49,540**	45,185
Cash flow from operating activities per share, basic and diluted[2]	**$0.37**	$0.35	**$1.38**	$1.22

(1) Cash flow from operating activities is provided as a comparable measure to cash flow from operating activities before working capital adjustments.
(2) Per share, basic and diluted measures calculated by dividing the respective financial measure with the weighted average common shares outstanding for the respective period.

Overview

2019 Second Quarter Financial and Operational Highlights

- Badger generated Adjusted EBITDA of $39.2 million for the second quarter of 2019, an increase of 2% compared to $38.5 million in the prior year comparative quarter. The increase in Adjusted EBITDA was driven by revenue growth combined with the impact of bad debt recoveries, which more than offset higher direct and general and administrative costs.
    - Revenue for the second quarter of 2019 of $161.2 million was $13.6 million, or 9% higher compared to $147.6 million in the prior year comparative quarter.
    - In the United States ("U.S."), revenue for the second quarter of 2019 was US$95.5 million, US$9.2 million or 11% higher than the prior year comparative of US$86.3 million. Revenue growth in the U.S. was negatively impacted by, record or near record, levels of precipitation throughout the second quarter of 2019, resulting in delays to the normal course ramp up of the spring construction season in many of Badger's key geographic markets, in particular the Great Lakes/Midwest/Ohio Valley corridor. Despite the impact of adverse weather conditions, Badger continued to realize increased customer demand as a result of the ongoing adoption of hydro excavation as the preferred method for non-destructive excavation.
    - In Canada, revenue for the second quarter of 2019 of $33.5 million was $2.5 million, or 7% lower than the prior year comparative quarter with revenue of $36.0 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. Revenues in Eastern Canada, similarly to the U.S. operations, were impacted by adverse weather conditions which resulted in reduced construction activity during the second quarter.
    - 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 second quarter of 2019 was $32,265 on a consolidated basis, 1% lower than the prior year comparative quarter of $32,625. RPT in the U.S. operations was US$34,910 compared to US$35,400 in the prior year comparative quarter, with RPT in the Canadian operations of $25,667 compared to $26,506 in the prior year comparative quarter. The change in RPT compared to the prior year comparative quarter was primarily driven by volume growth offset by the impact of reduced asset utilization driven by adverse weather conditions across a number of Badger's key geographic markets.
- Gross profit margin for the second quarter of 2019 was 31.4%, a 20 basis points increase over the prior year comparative quarter of 31.2%. Adjusted EBITDA margin for the second quarter of 2019 was 24.3%, a 180 basis point decrease over the prior year comparative margin of 26.1%.
    - Gross profit margin in the second quarter of 2019 was impacted by reduced labour efficiency driven by adverse weather conditions offset by the impact of bad debt recoveries. 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").
- Effective January 1, 2019, Badger adopted IFRS 16 - *Leases* on a prospective basis. The impact on the 2019 second 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.

- During the second quarter of 2019, Badger placed 49 net hydrovacs into service, consisting of 58 new and 9 retired. See “2019 Financial Outlook” for additional details.
    - As at June 30, 2019, Badger had 1,290 total hydrovacs compared to 1,190 in the prior year comparative quarter and 1,221 as at December 31, 2018. See “Capital Resources” for additional details.
- Net profit for the second quarter of 2019 was $11.9 million or $0.33 per share compared to $10.6 million or $0.29 per share in the prior year comparative quarter. Net profit for the second quarter of 2019 was impacted by the same items as Adjusted EBITDA, combined with lower income tax expense and higher share-based compensation and depreciation expenses. Net profit per share on a quarter-over-quarter basis benefitted from a 3% 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 continues to maintain a strong balance sheet. As at June 30, 2019, total debt less cash and cash equivalents was $112.5 million, with a corresponding total debt less cash and cash equivalents to Compliance EBITDA ratio of 0.7X.
- During the second quarter of 2019, pursuant to the Company’s NCIB, Badger purchased and cancelled 136,700 of its common shares at a weighted average price per share of $47.72. See “Normal Course Issuer Bid” for additional details.

2019 Financial Outlook

Based on existing and forecasted activity levels, Badger anticipates that its 2019 Adjusted EBITDA will be in the range of $170 to $190 million. The hydrovac build for 2019 is anticipated to be between 190 to 220 units with retirements of 40 to 60 units. The 2019 financial outlook and the 2019 hydrovac build and retirement estimates are consistent with the 2019 financial outlook provided with the Company’s 2019 first quarter and annual disclosure documents.

Continued growth in Badger’s end use markets and geographic areas, particularly within its U.S. operations, has resulted in an increase in revenue. Badger anticipates continued growth in revenues for the second half of 2019 with a gross profit margin to be similar to modestly higher than in 2018. The impact of higher than average precipitation levels experienced in the second quarter of 2019, which negatively impacted revenue growth and gross margin, are not anticipated to have an impact on the second half 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.

Additionally, the 2019 financial outlook assumes 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, 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 2019 compared to 2018. Badger continues to see organic growth opportunities in the majority of its markets, although the ability to capture these opportunities may be partially limited by the availability of trained operators as the market for labour, particularly in certain oil and gas focused regions, continues to be challenging.

Results of Operations for the Three Months Ended June 30, 2019

Revenues

Revenues of $161.2 million for the second quarter of 2019 were 9% higher than the $147.6 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 11% to US$95.5 million for the second quarter of 2019 compared to US$86.3 million in the prior year comparative quarter. Items impacting second quarter revenues within the U.S. operations include:
  - Continued revenue growth attributable to increased activity levels from both new and existing customers across a number of Badger's geographic and end use market segments.
  - Revenues in a number of Badger's key U.S. markets were negatively impacted by higher than normal precipitation levels which caused delays in the ramp-up of spring construction activities. Precipitation levels in the U.S., as tracked by the U.S. National Centers for Environmental Information, reported record or near record precipitation levels for the second quarter of 2019 across a number of Badger's key geographic markets, in particular the Great Lakes/Midwest/Ohio Valley corridor. The impact of weather was offset by growth in other geographic markets, demonstrating the benefit of Badger's broad geographic footprint and operating scale.
  - 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 $127.7 million in the second quarter of 2019, compared to $111.5 million in the prior year comparative quarter, a 15% increase. The weighted average foreign currency rate used in the translation of U.S. dollar revenues to Canadian dollars for the second quarter of 2019 was CDN$1.34 to US$1.00, compared to CDN$1.29 to US$1.00 in the prior year.
  - Revenue in the Canadian operations for the second quarter of 2019 of $33.5 million was $2.5 million or 7% lower than the prior year comparative quarter with revenue of $36.0 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. Revenues in Eastern Canada, similarly to the U.S. operations, were impacted by adverse weather conditions which resulted in reduced construction activity during the second quarter.
  - 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 second quarter of 2019 was $6.9 million, modestly lower than the $7.7 million generated in the prior year comparative quarter, 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 to a slowdown in general activity levels and the impact of adverse weather conditions.

Consolidated RPT for the second quarter of 2019 was $32,265 compared to $32,625 in the prior year comparative quarter. RPT in the U.S. operations in the second quarter of 2019 was US$34,910 compared to US$35,400 in the prior year comparative quarter, and for the Canadian operations was $25,667 in the second quarter compared to $26,506 in the prior year comparative quarter. The modest reduction in RPT in both the U.S. and Canadian operations was principally due to the impact of adverse weather conditions in a number of Badger's key markets which reduced asset utilization, more than offsetting the positive impacts of customer growth and ongoing fleet optimization activities.

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 second quarter of 2019 were $110.6 million compared to $101.5 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 second quarter of 2019 of 69% were consistent with the prior year comparative quarter of 69%, as the impact of higher labour related costs was offset by a bad debt recovery.

Labour related costs as a percentage of revenue were higher than the prior year comparative quarter as a result of reduced asset utilization, driven by the impact of adverse weather conditions which negatively impacted customer activity levels and thereby reduced overall labour efficiency. The reduction in customer activity levels as a result of weather created a challenging environment to actively manage labour throughout the second quarter. Adverse weather conditions, over extended periods of time, ultimately reduce the predictability of day-to-day customer requirements due to the nature of outdoor construction activities. In addition to day-to-day scheduling challenges, labour efficiency was negatively impacted by the strategic decision to maintain certain levels of hours for hydrovac operators in order to mitigate operator turnover. The predictability of hours for hydrovac operators is a key component in Badger's ability to retain and attract operators. Badger continues to actively recruit and train operators across its entire branch network in anticipation of the seasonal increase inherent in the business combined with the impact of ongoing growth. As Badger enters the third quarter, which is typically the peak quarter for construction related activity across the majority of markets across Canada and the U.S., it is important that Badger have a sufficient number of trained operators available to meet anticipated customer demand. Labour related costs were also impacted by general wage inflation which more than offset the impact of cost reduction initiatives and the growth of the business in lower labour cost markets. Non-operator labour included in direct costs, which includes functions such as environmental, health and safety and sales and marketing, were consistent with the prior year quarter on a percentage of revenue basis. 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 a net recovery of $3.4 million for the second quarter of 2019, compared to an expense of $0.7 million in the prior year comparative quarter. The net recovery for the second quarter of 2019 is due to the sale of certain accounts receivable from a large utility customer which were previously expensed as a bad debt as a result of a Chapter 11 bankruptcy filing, all of which was previously disclosed in the fourth quarter of 2018 and first quarter of 2019. The sale of these receivables, which resulted in a net recovery of approximately 90% of the gross value of the receivables, was finalized in the second quarter of 2019, with the cash receipt received early in the third quarter of 2019. No further financial impact is anticipated related to the sale of these receivables. Excluding the impact of the sale of the Chapter 11 related accounts receivable, bad debt expense was consistent with the prior year.

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 second 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 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. The investments in many of these areas has moderated and as a result, the Company will 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 second quarter of 2019 was $50.6 million compared to $46.1 million in the prior year comparative quarter, with a corresponding gross profit margin of 31.4% for the second quarter compared to 31.2% in the prior year comparative quarter. Gross profit margin in the U.S. operations was 32.7% for the second quarter of 2019 compared to 32.3% for the prior year comparative quarter, with gross profit margin in the Canadian operations of 26.6% for the second quarter of 2019 compared to 28.0% in the prior year comparative quarter.

Gross profit margin in the U.S. and Canadian operations were impacted by reduced labour efficiency, driven by adverse weather conditions and a modestly lower RPT, offset in part by the impact of the adoption of IFRS 16, all of which were previously discussed. In addition, gross profit margin in the U.S. operations benefitted from the recovery of previously recognized bad debts. 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 second quarter of 2019 were $11.4 million compared to $7.6 million in the prior year comparative quarter. As a percentage of revenue, general and administrative expenses were 7.0% in the second quarter of 2019 compared to 5.2% in the prior year comparative quarter. 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"). General and administrative expenses were also impacted by higher professional and consulting fees related to general corporate activities.

Badger's target for general and administrative expenses, excluding costs associated with implementing the Common Business Platform, on a long-term annualized basis remains at 4.0% of revenue. As previously disclosed, Badger anticipated that general and administrative expenses would trend above 4.0% on an annualized basis for fiscal 2019. The run rate for general and administrative expenses as a percentage of revenue for 2019 is anticipated to be above 2018 levels, as well as the long-term annualized target, due to a combination of costs associated with the Common Business Platform project and ongoing investments in administrative resources required to support current and future growth.

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

Depreciation expense was $15.4 million for the second quarter of 2019 compared to $12.1 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 second quarter of 2019.

Share-based Compensation Expense

Share-based compensation expense was $7.0 million in the second quarter of 2019 compared to $6.0 million in the prior year comparative quarter. The increase in the expense is due primarily to the increase in the market value of Badger's common shares during the second 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 or loss on the sale of property, plant and equipment for the second quarter of 2019 was nil compared to a gain of $0.2 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, standby fees on the syndicated revolving credit facility and finance costs associated with lease liabilities, were $1.5 million for the second quarter of 2019, $0.2 million higher than the prior year comparative quarter of $1.3 million. The increase in finance costs was 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.

As at June 30, 2019, the Company's debt obligations, excluding the impact of normal course operating leases and outstanding letters of credit, consisted of $21.0 million drawn on the Company's syndicated revolving credit facility, the US$75.0 million senior secured notes and $15.2 million in lease liabilities, all of which are further described herein.

Income Tax

Total income tax expense for the second quarter of 2019 was $3.3 million compared to $9.0 million in the prior year comparative quarter. Included in the second quarter of 2019 total income tax expense is a current income tax recovery of $0.9 million and deferred income tax expense of $4.2 million, compared to current income taxes of $7.7 million and deferred income tax expense of $1.3 million in the prior year comparative quarter.

Current income tax recovery of $0.9 million is comprised of $0.3 million in U.S. current income taxes (Q2 2018 – $3.1 million) and a $1.2 million Canadian current income tax recovery (Q2 2018 – $3.7 million expense). The change in current income tax expense in the U.S. was driven by the fact that the second quarter 2018 income tax provision includes the impact of the finalization of various transfer pricing initiatives from previous fiscal years which are non-recurring by their nature. Excluding the absence of the non-recurring prior year items, U.S. current income taxes were consistent with the prior year quarter. The change in current income tax expense in Canada was due to reduced taxable income due largely to higher share-based compensation expense.

Deferred income tax expense for the second quarter of 2019 was $4.3 million compared to $1.3 million in the prior year comparative quarter. The increase in deferred income tax expense is due in part to the prior year comparative quarter including the impact of the finalization of previous years transfer pricing initiatives (as noted above) combined with the updated U.S. bonus depreciation provisions which allow for a 100% deduction of hydrovacs and other eligible capital put into service in the U.S.

Net Profit

Net profit for the second quarter of 2019 was $11.9 million, a $1.3 million increase compared to net profit of $10.6 million in the prior year comparative quarter. The increase in net profit is due to higher revenues and gross profit and reduced income tax expense, offset in part, by higher share-based compensation, 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 loss of $4.9 million for the second quarter of 2019 compared to income of $4.3 million in the prior year comparative quarter. The change in OCI for the second quarter of 2019 is the result of the U.S. dollar weakening 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 second quarter of 2019 was $13.4 million, compared to the prior year comparative quarter of $12.9 million. Cash flow from operating activities was impacted by higher net profit after the impact of certain non-cash adjustments. 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 $39.3 million in the second quarter of 2019 compared to $38.7 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.

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 $80.9 million at June 30, 2019, compared to $143.4 million at December 31, 2018. The decrease in working capital as at June 30, 2019, was driven primarily by the reclassification of $32.7 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. Working capital was also impacted by an increase in trade receivables due to the seasonal increase in Badger's business due to the ramp up of the spring construction season, offset by the reduced cash and cash equivalents, due in part, to common shares repurchases made under the Company's normal course issuer bid.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totaled $172.0 million at June 30, 2019, $12.2 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 second quarter of 2019 due to a combination of organic growth and the seasonal impact of the beginning of the spring 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 June 30, 2019, was $4.2 million in accrued revenue compared to $3.7 million at December 31, 2018. Accrued revenue is recognized when it meets the requirements of Badger's revenue recognition policy.

As at June 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 syndicated revolving credit facility. Badger's access to liquidity, through a combination of cash flows from operating activities and its existing credit facility, is sufficient to meet the existing operational and capital expenditures of the business. Cash flows from operating activities are subject to variations and risks associated with the normal course operations of the business, including the impact of the seasonality within the business and the normal course timing and collection of working capital. See "Financing" for a summary of the key terms, conditions and unutilized capacity of the Company's syndicated revolving credit facility.

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 $23.8 million in total capital expenditures for the second quarter in 2019, compared to $26.1 million in the prior year comparative quarter. The majority of capital expenditures during the second quarter of 2019 related to the production of hydrovacs.

For the second quarter of 2019, Badger completed 58 hydrovacs, compared to 55 hydrovacs in the second quarter of 2018. As previously discussed in the 2019 first quarter MD&A, the timing of new hydrovac builds in the first quarter of 2019 was impacted by the changeover to chassis with automatic transmissions, which was completed in late January 2019. See "2019 Financial Outlook" for additional details on Badger's 2019 anticipated hydrovac build and retirements.

Capital Expenditures

($ thousands)	**Three months ended June 30,**		**Six months ended June 30,**	
	2019	2018	**2019**	2018
Hydrovac completed units and work-in-progress	**20,284**	23,146	**40,493**	44,945
Other vehicles and trailers	**766**	2,618	**1,061**	3,861
Buildings	**-**	2	**-**	22
Other	**925**	383	**996**	468
Total expenditures of property, plant and equipment	**21,975**	26,149	**42,550**	49,296
Upfront payments for right-of-use assets (1)	**1,779**	-	**2,949**	-
Total capital expenditures	**23,754**	26,149	**45,499**	49,296

(1) 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 process of expanding its U.S. administrative head office in conjunction with the formation of a hydrovac operator training center ("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

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 anticipates that the total project will be implemented over a two-year period with the first components being available for use in the second half of 2019. The Common Business Platform has an estimated total cost of $20 to $25 million. 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 incurred 60% in 2019 and 15% in 2020. Due to the timing and nature of the allocation of the total expenditures between capital and operating expenses, it is not practical to provide an estimated allocation of the breakdown of expenditures between operating expenses and capital by year.

During the second 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 third and fourth quarters of 2019.

Total expenditures incurred during the second quarter of 2019, were $6.5 million, with $0.6 million included in general and administrative expenses and $5.9 million capitalized and categorized as a component of intangible assets. On a cumulative basis, total expenditures incurred on the project are $17.1 million, with $1.2 million included in general and administrative expenses and $15.9 million capitalized and categorized as a component of intangible assets.

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 $145.8 million in aggregate Canadian dollars, consists of a $100.0 million Canadian tranche and a US$35.0 million tranche ($45.8 million Canadian dollar equivalent as at June 30, 2019), providing Badger with the administrative flexibility to borrow in both Canada and the United States. The Credit Facility, which is a four-year term, matures on August 11, 2021. Badger has the flexibility to expand the Credit Facility, subject to approval by the lenders, by an additional $100.0 million Canadian dollars. Badger maintains the Credit Facility for general corporate and liquidity purposes, in addition to financing requirements, if any, related to Badger’s capital expenditure requirements.

The Credit Facility bears interest, at the Company's option, at either the bank's prime rate plus a tiered set of basis points or bankers' acceptance (“BA”)/London interbank offered rate (“LIBOR”) also with a tiered structure. A standby fee is also required on the unused portion of the Credit Facility on a tiered basis. The prime rate tiers range between zero and 125 basis points. The BA/LIBOR tiers range from 125 to 250 basis points. The standby fee tiers range between 25 and 50 basis points. All of the tiers are based on the Company's Funded Debt to Compliance EBITDA ratio. Stand-by fees are expensed as incurred.

The Credit Facility is collateralized by a general security interest over the Company's assets, property and undertaking, present and future.

As at June 30, 2019, the Company had $21.0 million outstanding on its Credit Facility (December 31, 2018 - nil) and had issued letters of credit of $4.4 million (December 31, 2018 - $3.9 million). The outstanding letters of credit, which reduce the amount of available credit under the Credit Facility, support Badger's U.S. insurance program and certain other performance bonds.

As at June 30, 2019, the Company had available $120.4 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 ($98.2 million Canadian equivalent as at June 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.

Lease Liability

As at June 30, 2019, the Company had $15.2 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.

Financial covenant	**June 30, 2019**	December 31, 2018	Threshold
Funded Debt to Compliance EBITDA[(1)(2)]	**0.9:1**	0.6:1	2.75:1 max
Interest Coverage Ratio[(3)]	**28.5:1**	30.9:1	3.00:1 min
Tangible Net Worth[(1)]	**$284.4 million**	$314.1 million	$188.6 million

(1) See "Non-IFRS Financial 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, 2019, calculated as $128.7 million in Funded Debt divided by $151.3 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) The Interest Coverage Ratio is calculated as Compliance EBITDA divided by interest expense. For the twelve months ended June 30, 2019, calculated as $151.3 million in Compliance EBITDA divided by $5.3 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 second quarter of 2019, and as at June 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

As at June 30, 2019, the number of common shares outstanding was 35,742,738 (December 31, 2018 – 36,582,738). The weighted average common shares outstanding for the three and six months ended June 30, 2019, was 35,854,547 and 35,937,865 respectively (December 31, 2018 – 37,083,766).

As at August 6, 2019, the number of common shares outstanding was 35,648,738. 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

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 June 30, 2019, pursuant to the NCIB, the Company purchased and cancelled 126,700 common shares at a weighted average price per share of $47.73. In addition, the Company purchased 10,000 common shares in the last two trading days of the second quarter at a weighted average price per share of $47.58 which were settled and cancelled subsequent to June 30, 2019. On a cumulative basis, the Company has purchased and cancelled 136,700 common shares at a weighted average price per share of $47.72 under the current NCIB.

For the period July 1, 2019 through August 6, 2019, the Company purchased and cancelled 94,000 common shares at a weighted average price per share of $48.33

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 the financial capacity available under its syndicated revolving credit facility, to fund its contractual obligations.

Financial Instruments and Risk Management

Fair values

The Company's financial instruments recognized on the consolidated statements of financial position consist of cash and cash equivalents, trade and other receivables, income taxes receivable, trade and other payables, dividends payable, income taxes payable, borrowings under credit facility, current and long-term lease liabilities, and current and long-term debt. The fair values of these recognized financial instruments, excluding long-term debt, approximate their carrying value due to their short-term maturity. The carrying value of the Company's credit facility and lease liabilities approximate fair value because these liabilities utilize floating and/or market based interest rates. The fair value of the Company's senior secured notes are disclosed in the 2019 second 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 June 30, 2019, the Company had $21.0 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	**161,210**	146,614	178,609	168,712	147,550	120,571	132,062	140,903
Net profit	**11,949**	6,031	23,468	25,689	10,586	8,074	31,244	16,192
Net profit per share, basic and diluted ($)	**$0.33**	$0.16	$0.63	$0.69	$0.29	$0.22	$0.84	$0.44
Dividends paid	**5,112**	4,885	5,009	5,009	4,749	4,229	4,229	3,858
Dividends per share, basic and diluted ($)	**$0.140**	$0.135	$0.135	$0.135	$0.128	$0.114	$0.114	$0.104

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

- General improvements in economic growth and overall macro-economic conditions in both the United States and Canada;
- Increased usage and demand for Badger's hydrovac services, particularly in the U.S., which is Badger's largest market. The increase in customer demand has resulted in an increase in revenues, gross dollar direct costs, general and administrative expenses and Adjusted EBITDA;
- 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 June 30,	
	2019	**2018**
Total revenue	**127,666**	111,519
Less: Other revenue	**(1,185)**	(816)
Hydrovac revenue	**126,481**	110,703
Foreign exchange rate (1)	**1.3374**	1.2917
Hydrovac revenue - U.S. equivalent	**94,572**	85,703
Average hydrovacs (2)	**903**	807
RPT (U.S. dollars) (3)	**34,910**	35,400

Revenue per truck per month – Canada

	Three months ended June 30,	
	2019	**2018**
Total revenue	**33,544**	36,031
Less: Other revenue	**(5,670)**	(6,927)
Hydrovac revenue	**27,874**	29,104
Average hydrovacs (2)	**362**	366
RPT (3)	**25,667**	26,506

Revenue per truck per month– Consolidated (mixed currency)

	Three months ended June 30,	
	2019	**2018**
Hydrovac revenue - U.S.	**94,572**	85,703
Hydrovac revenue - Canada	**27,874**	29,104
Total hydrovac revenue	**122,446**	114,807
Average hydrovacs (2)	**1,265**	1,173
RPT (3)	**32,265**	32,625

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

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

(3) 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Canada	**366**	357	355	356	363	368	362	361
U.S.	**922**	884	866	851	827	786	747	720
	1,288	1,241	1,221	1,207	1,190	1,154	1,109	1,081
Hydrovac operator training center (1)	**2**	-	-	-	-	-	-	-
Total	**1,290**	1,241	1,221	1,207	1,190	1,154	1,109	1,081

(1) 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 (1)

	2019		2018					2017		
	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3
Canada	**362**	356	359	356	360	366	365	359	362	357
U.S.	**903**	875	807	859	839	807	767	708	734	712
Total	**1,265**	1,231	1,166	1,215	1,199	1,173	1,132	1,067	1,096	1,069

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

Marketing and Franchise Agreements

Number of Marketing and Franchise Agreements	2019		2018				2017	
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Canada	**11(5)**	10(4)	9	9	9(3)	10	10	10(1)
U.S.	**4**	4	4	4	4	4(2)	3	3
Total	**15**	14	13	13	13	14	13	13

(1) Badger purchased the assets of an operating partner to facilitate the operating partner's exit from the business.
(2) A new U.S. based franchise agreement was executed during the first quarter of 2018.
(3) Badger purchased the assets of an operating partner to facilitate the operating partner's exit from the business.
(4) A new Canadian based operating partner agreement was executed during the first quarter of 2019.
(5) A new Canadian based operating partner agreement was executed during the second quarter of 2019.

Foreign Exchange Rates

	2019		2018					2017		
1 USD:CAD	**Q2**	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3
Period weighted average (1)	**1.3374**	1.3296	1.2992	1.3191	1.3068	1.2917	1.2663	1.2986	1.2753	1.2672
Period end	**1.3087**	1.3363	1.3642	1.3642	1.2945	1.3168	1.2894	1.2545	1.2545	1.2480

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

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

Non-IFRS Financial Measures

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

"Adjusted EBITDA" is earnings before interest, taxes, depreciation and amortization, share-based compensation, gains and losses on sale 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 June 30,**		**Six months ended June 30,**	
Adjusted EBITDA	**2019**	2018	**2019**	2018
Net profit	**11,949**	10,586	**17,980**	18,660
Add:				
Depreciation of property, plant and equipment	**15,414**	12,120	**30,089**	23,820
Share-based compensation expense	**7,039**	5,990	**15,339**	6,052
Loss (gain) on sale of property, plant and equipment	**(12)**	(191)	**(220)**	510
Finance cost	**1,528**	1,271	**2,972**	2,519
Foreign exchange loss (gain)	**(24)**	(288)	**669**	(638)
Income tax expense	**3,330**	8,973	**5,669**	11,981
Adjusted EBITDA	**39,224**	38,461	**72,498**	62,904

Adjusted EBITDA can also be calculated as follows:

($ thousands)	**Three months ended June 30,**		**Six months ended June 30,**	
Adjusted EBITDA	**2019**	2018	**2019**	2018
Revenue	**161,210**	147,550	**307,824**	268,121
Less:				
Direct costs	**110,627**	101,467	**214,679**	191,224
General and administrative expense	**11,359**	7,622	**20,647**	13,993
Adjusted EBITDA	**39,224**	38,461	**72,498**	62,904

"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 June 30,		Six months ended June 30,	
Adjusted EBITDA margin	**2019**	2018	**2019**	2018
Adjusted EBITDA	**39,224**	38,461	**72,498**	62,904
Revenue	**161,210**	147,550	**307,824**	268,121
Adjusted EBITDA margin	**24.3%**	26.1%	**23.6%**	23.5%

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

Compliance EBITDA is calculated as follows:

($ thousands)	Twelve months ended June 30,	
Compliance EBITDA	**2019**	2018
Net profit	**66,839**	66,098
Add:		
Depreciation of property, plant and equipment	**55,265**	47,003
Finance cost	**5,345**	5,465
Income tax expense	**23,804**	8,988
Compliance EBITDA	**151,253**	127,554

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

Funded Debt is calculated as follows:

($ thousands)		
Funded Debt	**June 30, 2019**	December 31, 2018
Long-term debt	**65,435**	102,315
Current portion of long-term debt	**32,718**	-
Borrowings under credit facility	**21,000**	-
Lease liability(1)	**10,467**	-
Current portion of lease liability(1)	**4,683**	-
Total obligations	**134,303**	102,315
Add: issued letters of credit	**4,421**	3,856
Less: cash on hand(2)	**(10,000)**	(10,000)
Funded Debt	**128,724**	96,171

(1) See "IFRS 16 – *Leases*" for additional details.

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

“Tangible Net Worth” consists of total shareholders equity less other comprehensive income subsequent to September 30, 2013, as adjusted for certain impairments and less intangible assets. Tangible Net Worth is used by Badger to calculate compliance with its debt covenants and other credit information.

Tangible Net Worth is calculated as follows:

($ thousands) **Tangible Net Worth**	**June 30, 2019**	December 31, 2018
Shareholders equity	**338,135**	366,502
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	**(28,287)**	(37,201)
Less: intangible assets and goodwill	**(25,429)**	(15,212)
Tangible Net Worth	**284,419**	314,089

Changes in Accounting Policies

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 second quarter interim condensed consolidated financial statements.

Critical Accounting Policies and Estimates

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

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 second 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, with a softer overall macro-economic environment anticipated in Canada, particularly in Western Canada;
- Badger anticipates that oil and gas activity levels for 2019 will be consistent with 2018 levels within its U.S. operations but weaker in Canada in 2019 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 $170 to $190 million;
- Badger anticipates that the number of new hydrovac builds for 2019 will be approximately 190 to 220 units and that hydrovac retirements for 2019 will be in the range of 40 to 60 units;
- Badger anticipates that gross profit margin for 2019 will be similar to modestly higher than in 2018 and that RPT will be modestly lower in 2019 than 2018;
- The timing, benefits and costs associated with Badger's Common Business Platform project, including the impact on general and administrative expenses;
- Badger's estimated 2019 and long-term target for general and administrative expenses as a percentage of revenue on an annualized basis;

- 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 expectation that no future bad debt expense will be incurred in relation to the Chapter 11 bankruptcy filing by a large utility customer;
- 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) 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.