



**Management's Discussion and Analysis
FOR THE THREE MONTHS ENDED MARCH 31, 2019**

May 13, 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 months ended March 31, 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 May 13, 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 March 31,	
	2019	2018 ⁽²⁾⁽⁴⁾
Revenue:		
Hydrovac service revenue	141,214	115,004
Other revenue	5,400	5,567
Total revenue	146,614	120,571
RPT - Consolidated (mixed currency) ⁽¹⁾	30,832	28,608
RPT- U.S. (U.S. dollars) ⁽¹⁾	31,614	29,130
RPT- Canada (Canadian dollars) ⁽¹⁾	28,910	27,511
Adjusted EBITDA ⁽¹⁾	33,274	24,443
Adjusted EBITDA per share, basic and diluted ⁽¹⁾⁽³⁾	\$0.91	\$0.66
Adjusted EBITDA margin ⁽¹⁾	22.7%	20.3%
Profit before income tax	8,370	11,082
Net profit	6,031	8,074
Net profit per share, basic and diluted ⁽³⁾	\$0.16	\$0.22
Cash flow from operating activities before working capital adjustments	32,632	24,679
Cash flow from operating activities before working capital adjustments per share, basic and diluted ⁽³⁾	\$0.89	\$0.67
Dividends paid	4,885	4,229
Weighted average common shares outstanding ⁽³⁾⁽⁵⁾	36,592,791	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 March 31,	
	2019	2018
Cash flow from operating activities	36,189	32,318
Cash flow from operating activities per share, basic and diluted ⁽²⁾	\$0.99	\$0.87

- (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 First Quarter Financial and Operational Highlights

- Badger generated Adjusted EBITDA of \$33.3 million for the first quarter of 2019, an increase of 36% compared to \$24.4 million in the prior year comparative quarter. Improvements in Adjusted EBITDA were driven by revenue growth, higher hydrovac utilization as a result of a combination of an increase in operating hours and modest improvements in pricing, and active management of direct costs, offset in part by higher general and administrative expenses.
 - Revenue for the first quarter of 2019 of \$146.6 million was \$26.0 million, or 22%, higher compared to \$120.6 million in the prior year comparative quarter.
 - In the United States (“U.S.”), revenue for the first quarter of 2019 was US\$83.5 million, US\$16.1 million or 24% higher than the prior year comparative of US\$67.4 million. In Canada, revenue for the first quarter of 2019 of \$35.6 million was \$0.4 million, or 1%, higher than the prior year comparative quarter with revenue of \$35.2 million. The increase in revenue, particularly in the U.S. operations, is due primarily to increased customer demand as a result of the ongoing adoption of hydro excavation as the preferred method for non-destructive excavation.
- Revenue per truck per month (“RPT”) for the first quarter of 2019 was \$30,832 on a consolidated basis, 8% higher than the prior year comparative quarter of \$28,608. RPT in the U.S. operations was US\$31,614 compared to US\$29,130 in the prior year comparative quarter, with RPT in the Canadian operations of \$28,910 compared to \$27,511 in the prior year comparative quarter. The year-over-year improvements in RPT were driven by revenue growth and improved asset utilization.
- Gross profit margin for the first quarter of 2019 was 29.0%, a 350 basis point or 14% increase over the prior year comparative quarter of 25.5%. Adjusted EBITDA margin for the first quarter of 2019 was 22.7%, a 240 basis point or 12% increase over the prior year margin of 20.3%.
 - Margins in the first quarter of 2019 benefitted from a reduction in direct operating costs, modest improvements in hydrovac rates and improved asset utilization, which more than offset the impact of higher bad debts.
- Effective January 1, 2019, Badger adopted IFRS 16 - *Leases* on a prospective basis. The impact on the 2019 first 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. In addition, upon the initial adoption of IFRS 16 as at January 1, 2019, Badger recognized a right-of-use asset of \$14.8 million, a lease liability of \$14.8 million and recorded an adjustment to opening retained earnings of \$0.3 million. See “Changes in Accounting Policies” for additional details.
- During the first quarter of 2019, Badger placed 20 net hydrovacs into service, consisting of 37 new and 17 retired. The timing of new hydrovac builds in the first quarter was impacted by the changeover to chassis with automatic transmissions, which was completed in late January 2019. Badger continues to forecast its 2019 hydrovac build rate to be between 190 and 220 units. See “2019 Financial Outlook” for additional details.
 - As at March 31, 2019, Badger had 1,241 hydrovacs in operation compared to 1,154 in the prior year comparative quarter and 1,221 as at December 31, 2018. See “Capital Resources” for additional details.
- Net profit for the first quarter of 2019 was \$6.0 million or \$0.16 per share compared to \$8.1 million or \$0.22 per share in the prior year comparative quarter. Net profit was impacted by higher Adjusted EBITDA offset by higher share-based compensation and depreciation expenses.

- Badger continues to maintain a strong balance sheet. As at March 31, 2019, total debt less cash and cash equivalents was \$85.1 million, with a corresponding total debt less cash and cash equivalents to Compliance EBITDA ratio of 0.6X.
 - Effective with the first quarter of 2019, Badger’s total debt includes leases capitalized and categorized as lease liabilities with a corresponding right-of-use asset in accordance with the adoption of IFRS 16 as previously noted.
- During the first quarter of 2019, pursuant to the Company’s normal course issuer bid (“NCIB”), Badger purchased and cancelled 633,454 of its common shares at a weighted average price per share of \$33.50. See “Normal Course Issuer Bid” for additional details.
- The Board of Directors has approved the company pursuing an updated NCIB program upon the expiration of the existing NCIB program.

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 with a hydrovac build of between 190 to 220 units and retirements of 40 to 60 units, consistent with the 2019 financial outlook provided with the Company’s 2018 fourth quarter and annual disclosure documents.

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

Badger’s 2019 financial outlook assumes that Badger will continue to realize ongoing growth in the use of hydrovac for non-destructive excavation as a result of continued customer adoption, particularly in its U.S. markets. Badger expects to see improvements in revenue as a result of the scale of its extensive branch network combined with the ongoing benefits of sales and marketing related activities. The overall macro-economic environment in 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 March 31, 2019

Revenues

Revenues of \$146.6 million for the first quarter of 2019 were 22% higher than the \$120.6 million generated during the prior year comparative quarter. Throughout the first quarter of 2019, Badger realized improved demand for hydrovac and related services, particularly in its U.S. markets. The improvements in revenue are attributable to the following:

- Revenue in the U.S. operations increased by 24% to US\$83.5 million for the first quarter of 2019 compared to US\$67.4 million in the prior year comparative quarter. Revenue growth in the first quarter of 2019 was attributable to continued growth from both new and existing customers across the majority of Badger's end use market segments. Additional items impacting first quarter revenues in the U.S. operations include:
 - Hydrovac rates in the U.S. operations were consistent to modestly higher than the prior year across the majority of markets.
 - Revenues in certain U.S. markets were negatively impacted by harsh winter weather conditions which caused temporary delays in construction activity. The impact of harsh weather was offset by growth in other geographic markets, demonstrating the benefit of Badger's broad geographic footprint and operating scale.
 - Revenue for the first quarter of 2019 includes \$1.0 million in emergency response work related to the California wildfires, the impact of which was offset by a bad debt provision of \$0.8 million as a result of a Chapter 11 bankruptcy filing by a large utility customer for work performed related to the California wildfires as disclosed by Badger in its 2018 annual MD&A. The \$0.8 million bad debt provision recognized in the first quarter of 2019 relates to revenue recognized in the first quarter of 2019 for services provided prior to the Chapter 11 bankruptcy filing. Badger does not anticipate any future bad debt expense related to this specific bankruptcy filing in future quarters.
- U.S. revenue converted to Canadian dollars was \$111.0 million in the first quarter of 2019, compared to \$85.4 million in the prior year comparative quarter, a 30% increase. The weighted average foreign currency rate used in the translation of U.S. dollar revenues to Canadian dollars for the first quarter of 2019 was CDN\$1.33 to US\$1.00, compared to CDN\$1.27 to US\$1.00 in the prior year.
- Revenue in the Canadian operations for the first quarter of 2019 of \$35.6 million was \$0.4 million higher than the prior year comparative quarter with revenue of \$35.2 million. Revenue in Canada was impacted by modest improvements in general customer demand related to infrastructure and construction in the Eastern operations, offset by a slowdown in oil and gas related activity and harsh winter weather conditions which negatively impacted customer activity levels in Western Canada.
 - 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 first quarter of 2019 was \$5.4 million, consistent with the prior year of \$5.6 million, as customer demand related to Badger's non-hydrovac related service lines, such as sewer flushing and industrial tank cleaning, were similar to the prior year.

Consolidated RPT for the first quarter of 2019 was \$30,832 compared to \$28,608 in the prior year comparative quarter. RPT for the U.S. operations in the first quarter of 2019 was US\$31,614 compared to US\$29,130 in the prior year comparative quarter, and for the Canadian operations was \$28,910 in the first quarter compared to \$27,511 in the prior year comparative quarter. The improvement in RPT in the U.S. and Canada was due primarily to a combination of higher overall revenues as a result of customer growth and improved asset utilization as discussed above.

Badger continues to actively optimize its fleet on an ongoing basis in order to drive further operational and financial improvements by responding on a timely basis to changes in regional customer demand. Badger is uniquely positioned to be able to respond to customer service requirements due to its large hydrovac fleet and extensive branch network.

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 first quarter of 2019 were \$104.1 million compared to \$89.8 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 first quarter of 2019 of 71.0%, were 350 basis points lower than the prior year of 74.5%. Direct costs in the first quarter of 2019 benefitted from active cost management, in particular labour related costs. Labour related costs as a percentage of revenue were lower than the prior year as a result of a combination of the management of variable labour costs, improved asset utilization and growth of the business in lower labour cost regions, all of which more than offset the impact of general wage inflation. In addition, labour related costs which are fixed in nature, related to areas such as business development, and health and safety, are lower than the prior year quarter on a percentage of revenue basis. Investments in these functions made in prior periods have provided increased scale, and therefore growth in headcount in these areas is not currently required at the same rate of growth being realized in revenues. Also impacting direct costs was the adoption of IFRS 16 – *Leases*, details of which are summarized below. Offsetting the improvements in labour related costs and the impact of the adoption of IFRS 16, was an increase in bad debt expense which is fully described below. Costs related to fuel, insurance and repairs and maintenance were consistent with the prior year as a percentage of revenue.

As previously noted, effective January 1, 2019, Badger prospectively adopted IFRS 16 – *Leases*. As a result of the prospective adoption of this standard, Badger’s 2019 first 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. As noted above, the investments in many of these areas has moderated and

as a result, the Company is able to capture the operational benefits of the increased scale while also realizing a reduction in certain operating costs as a percentage of revenue.

Bad debt expense is included in direct costs and for the first quarter of 2019 was \$1.3 million compared to \$0.5 million in the prior year comparative quarter. As disclosed in the Company's 2018 annual MD&A, bad debt expense has been impacted by a Chapter 11 bankruptcy filing by a large utility customer in the United States. Included in the first quarter bad debt expense is \$0.8 million as a result of the Chapter 11 bankruptcy filing related to revenues recognized in the first quarter prior to the bankruptcy filing. Badger does not anticipate any future bad debt expense related to this specific bankruptcy filing in future quarters. Excluding the impact of the Chapter 11 bankruptcy filing, bad debt expense was consistent with the prior year quarter.

Gross Profit

Gross profit for the first quarter of 2019 was \$42.6 million compared to \$30.8 million in the prior year comparative quarter, with a corresponding gross profit margin of 29.0% for the first quarter compared to 25.5% in the prior year comparative quarter. Gross profit margin in the U.S. operations was 28.9% for the first quarter of 2019 compared to 26.8% for the prior year comparative quarter, with gross profit margin in the Canadian operations of 29.3% for the first quarter of 2019 compared to 22.5% in the prior year comparative quarter. Improvements in gross profit and gross profit margins in the U.S. and Canada were driven by a combination of reduced direct operating costs and a modest improvement in hydrovac rates. The reduction in direct operating costs is due primarily to improved labour efficiency and the impact of the adoption of IFRS 16, offset by an increase in bad debt expense. Hydrovac rates were positively impacted by changes in sales mix in certain regions and strategic pricing initiatives.

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

General and Administrative Expenses

General and administrative expenses for the first quarter of 2019 were \$9.3 million compared to \$6.4 million in the prior year comparative quarter. As a percentage of revenue, general and administrative expenses were 6.3% in the first quarter of 2019 compared to 5.3% 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 and operate the legacy and new ERP systems. Incremental costs relate to activities directly and indirectly attributable to investments in technology, business process improvement initiatives and the Common Business Platform project. 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. Badger anticipates general and administrative expenses as a percentage of revenue for 2019 to be higher than 2018. 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 \$14.7 million for the first quarter of 2019, compared to \$11.7 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 first quarter of 2019.

Share-based Compensation Expense

Share-based compensation expense was \$8.3 million in the first quarter of 2019 compared to \$0.1 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 first 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 first quarter of 2019 was \$0.2 million compared to a loss of \$0.7 million in the prior year comparative quarter. The gain on the sale of property, plant and equipment is the result of the proceeds on the disposal of general equipment and hydrovac units retired and disposed of being greater 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 \$1.4 million for the first quarter of 2019, \$0.2 million higher than the prior year comparative quarter of \$1.2 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 March 31, 2019, the Company's debt obligations, excluding the impact of normal course operating leases and outstanding letters of credit, consisted of \$7.5 million drawn on the Company's syndicated revolving credit facility, the US\$75.0 million senior secured notes and \$14.2 million in lease liabilities, all of which are further described herein.

Income Tax

Total income tax expense for the first quarter of 2019 was \$2.3 million compared to \$3.0 million in the prior year comparative quarter. Included in the 2019 total income tax expense is current income tax expense of \$1.9 million and deferred income tax expense of \$0.4 million, compared to current income taxes of \$1.8 million and deferred income tax expense of \$1.2 million in the prior year.

Current income tax expense for the first quarter of 2019 of \$1.9 million is \$0.1 million higher than the prior year comparative quarter. Current income tax expense is comprised of \$3.8 million in U.S. current income taxes (Q1 2018 – nil) and a \$1.9 million Canadian current income tax recovery (Q1 2018 – \$1.8 million expense). The change in current income tax expense in the U.S. was driven by higher taxable income as a result of improved operating performance in the U.S. operations. 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 first quarter of 2019 was \$0.4 million compared to \$1.2 million in the prior year comparative quarter. Deferred income tax expense was primarily impacted by a reduction in the number of hydrovacs placed into service in the U.S. operations in the first quarter of 2019 compared to the prior year comparative quarter.

Net Profit

Net profit for the first quarter of 2019 was \$6.0 million, a \$2.1 million decrease compared to net profit of \$8.1 million in the prior year comparative quarter. The change in net profit is due to higher share-based compensation, depreciation, and general and administrative expenses, which more than offset the impact of higher revenues, improved gross profit margins and improved asset utilization, 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 \$3.9 million for the first quarter of 2019 compared to income of \$5.0 million in the prior year comparative quarter. The change in OCI for the first 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 first quarter of 2019 was \$36.2 million, compared to the prior year comparative quarter of \$32.3 million. Cash flow from operating activities was impacted by higher net profit after the impact of certain non-cash adjustments and a reduction in non-cash working capital, offset by share-based plan payments. See the consolidated statement of cash flows contained within Badger’s unaudited interim condensed consolidated financial statements for additional details. The decrease in working capital is due to the normal course seasonal slowdown in the business in the first quarter. Cash flow from operating activities before non-cash working capital and other adjustments was \$32.6 million in the first quarter of 2019 compared to \$24.7 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 \$72.5 million at March 31, 2019, compared to \$143.4 million at December 31, 2018. The decrease in working capital as at March 31, 2019, was driven primarily by the reclassification of \$33.4 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 a reduction in trade receivables and reduced cash and cash equivalents.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totalled \$150.0 million at March 31, 2019, \$9.8 million lower than the balance at December 31, 2018, of \$159.8 million. The decrease in trade receivables is due to the normal course collection of trade receivables, the seasonal slow-down in Badger's business during the first quarter and the impact of a weaker U.S. dollar on the revaluation of U.S. denominated receivables. Included in total trade and other receivables at March 31, 2019, was \$4.4 million in accrued revenue compared to \$3.7 million at December 31, 2018. Accrued revenue is only recognized when it meets the requirements of Badger's revenue recognition policy.

As at March 31, 2019, 80% 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 ("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 \$21.7 million in total capital expenditures for the first quarter in 2019, compared to \$23.1 million in the prior year comparative quarter. The majority of capital expenditures during the first quarter of 2019 related to the production of hydrovacs.

For the first quarter of 2019, Badger completed 37 hydrovacs, compared to 55 hydrovacs in the first quarter of 2018. As previously noted, 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 March 31,	
	2019	2018
Hydrovac completed units and work-in-progress	20,209	21,799
Other vehicles and trailers	295	1,243
Buildings	-	20
Other	71	85
Total expenditures of property, plant and equipment	20,575	23,147
Upfront payments for right-of-use assets ⁽¹⁾	1,170	-
Total capital expenditures	21,745	23,147

⁽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.

Common Business Platform Project

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

The Common Business Platform commenced during the second quarter of 2018. Badger anticipates that the total project will be implemented over a two-year period with the first components being available for use in the second half of 2019. The Common Business Platform has an estimated total cost of \$20 to \$25 million, of which approximately 85% is anticipated to be capital (intangible asset) and 15% anticipated to be included in operating costs. Approximately 25% of the total costs associated with the project were incurred in 2018 which is consistent with Badger’s previously provided disclosure. The remaining costs of the project are anticipated to be incurred 60% in 2019 and 15% in 2020. Due to the timing and nature of the allocation of the total expenditures between capital and operating expenses, it is not practical to provide an estimated allocation of the breakdown of expenditures between operating expenses and capital by year.

During the first quarter of 2019, activities related to the Common Business Platform were primarily focused on business process redesign and the related configuration and integration into the ERP platform. Total expenditures incurred for the first quarter of 2019, were \$5.0 million, with \$0.4 million included in general and administrative expenses and \$4.6 million capitalized and categorized as a component of intangible assets. On a cumulative basis, total expenditures incurred on the project are \$10.6 million, with \$0.6 million included in general and administrative expenses and \$10.0 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 \$146.8 million in aggregate Canadian dollars, consists of a \$100.0 million Canadian tranche and a US\$35.0 million tranche (\$46.8 million Canadian dollar equivalent as at March 31, 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 March 31, 2019, the Company had \$7.5 million outstanding on its credit facility (December 31, 2018 - nil) and had issued letters of credit of \$3.8 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 March 31, 2019, the Company had available \$135.5 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 (\$100.2 million Canadian equivalent at March 31, 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 March 31, 2019, the Company had \$14.2 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	March 31, 2019	December 31, 2018	Threshold
Funded Debt to Compliance EBITDA ⁽¹⁾⁽²⁾	0.8:1	0.6:1	2.75:1 max
Interest Coverage Ratio ⁽³⁾	29.8:1	30.9:1	3.00:1 min
Tangible Net Worth ⁽¹⁾	\$289.8 million	\$314.1 million	\$185.6 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 March 31, 2019, calculated as \$115.7 million in Funded Debt divided by \$152.0 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 March 31, 2019, calculated as \$152.0 million in Compliance EBITDA divided by \$5.1 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 first quarter of 2019, and as at March 31, 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 March 31, 2019, the number of common shares outstanding was 35,879,438 (December 31, 2018 – 36,582,738). The weighted average common shares outstanding for the three months ended March 31, 2019, was 36,592,791 (December 31, 2018 – 37,083,766).

As at May 13, 2019, the number of common shares outstanding was 35,879,438. Badger does not currently have any material financial instruments which can be converted into additional common shares.

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

Normal Course Issuer Bid

On March 27, 2018, the Board of Directors approved the implementation of a normal course issuer bid (“NCIB”), pursuant to which the Company would have an option to repurchase its common shares for cancellation. On May 10, 2018, the Toronto Stock Exchange (the “Exchange”) accepted the notice (the “Notice”) filed by the Company to implement the NCIB. Under the existing NCIB, the Company may acquire up to 2,000,000 common shares during the period commencing on May 15, 2018, and ending May 14, 2019, or such earlier date on which the Company completes its purchases of common shares under the NCIB, or terminates the NCIB at its option.

On May 13, 2019, the Board of Directors approved the Company to pursue an updated NCIB program of up to 2,000,000 common shares upon the expiration of the existing NCIB program on May 14, 2019. The updated NCIB program is subject to normal course regulatory approvals by the Exchange.

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 March 31, 2019, pursuant to its NCIB, the Company purchased and cancelled 633,454 common shares at a weighted average price per share of \$33.50. On a cumulative basis, the Company has purchased and cancelled 1,262,068 common shares at a weighted average price per share of \$32.72 under its NCIB.

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 first 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 March 31, 2019, the Company had \$7.5 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			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	146,614	178,609	168,712	147,550	120,571	132,062	140,903	123,696
Net profit	6,031	23,468	25,689	10,586	8,074	31,244	16,192	14,718
Net profit per share, basic and diluted (\$)	\$0.16	\$0.63	\$0.69	\$0.29	\$0.22	\$0.84	\$0.44	\$0.40
Dividends paid	4,885	5,009	5,009	4,749	4,229	4,229	3,858	3,673
Dividends per share, basic and diluted (\$)	\$0.135	\$0.135	\$0.135	\$0.128	\$0.114	\$0.114	\$0.104	\$0.099

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 slow-down in certain northern markets during the winter construction season;
- Timing of customer emergency response services due to natural disasters;
- Additional investments related to the manufacture of hydrovac units and an increase in working capital requirements associated with the underlying growth in the business;
- Finalization of income tax benefits associated with transfer pricing activities for the 2009 through 2013 taxation years in the second quarter of 2018; and
- Updated U.S. income tax legislation, effective December 22, 2017, impacted Badger's 2018 current income tax expense and deferred income taxes in the fourth quarter of 2017.

Key Financial Metrics and Other Operational Metrics

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

Revenue per truck per month – United States

	Three months ended March 31,	
	2019	2018
Total revenue	110,996	85,374
Less: Other revenue	658	495
Hydrovac revenue	110,338	84,879
Foreign exchange rate ⁽¹⁾	1.3296	1.2663
Hydrovac revenue - U.S. equivalent	82,986	67,029
Average hydrovacs ⁽²⁾	875	767
RPT (U.S. dollars) ⁽³⁾	31,614	29,130

Revenue per truck per month – Canada

	Three months ended March 31,	
	2019	2018
Total revenue	35,618	35,197
Less: Other revenue	4,742	5,072
Hydrovac revenue	30,876	30,125
Average hydrovacs ⁽²⁾	356	365
RPT ⁽³⁾	28,910	27,511

Revenue per truck per month– Consolidated (mixed currency)

	Three months ended March 31,	
	2019	2018
Hydrovac revenue - U.S.	82,986	67,029
Hydrovac revenue - Canada	30,876	30,125
Total hydrovac revenue	113,862	97,154
Average hydrovacs ⁽²⁾	1,231	1,132
RPT ⁽³⁾	30,832	28,608

⁽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		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Canada	357	355	356	363	368	362	361	353
U.S.	884	866	851	827	786	747	720	703
Total	1,241	1,221	1,207	1,190	1,154	1,109	1,081	1,056

Average number of hydrovacs during the period ⁽¹⁾

	2019	2018					2017			
	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2
Canada	356	359	356	360	366	365	359	362	357	348
U.S.	875	807	859	839	807	767	708	734	712	696
Total	1,231	1,166	1,215	1,199	1,173	1,132	1,067	1,096	1,069	1,044

⁽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			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Canada	10 ⁽⁶⁾	9	9	9 ⁽⁵⁾	10	10	10 ⁽³⁾	11 ⁽¹⁾	
U.S.	4	4	4	4	4 ⁽⁴⁾	3	3	3 ⁽²⁾	
Total	14	13	13	13	14	13	13	14	

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

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

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

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

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

⁽⁶⁾ A new Canadian based operating partner agreement was executed during the first quarter of 2019.

Foreign Exchange Rates

1 USD:CAD	2019	2018					2017			
	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2
Period weighted average ⁽¹⁾	1.3296	1.2992	1.3191	1.3068	1.2917	1.2663	1.2986	1.2753	1.2672	1.3431
Period end	1.3363	1.3642	1.3642	1.2945	1.3168	1.2894	1.2545	1.2545	1.2480	1.2977

⁽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 March 31,	
Adjusted EBITDA	2019	2018
Net profit	6,031	8,074
Add:		
Depreciation of property, plant and equipment	14,675	11,700
Share-based compensation expense	8,300	62
Loss (gain) on sale of property, plant and equipment	(208)	701
Finance cost	1,444	1,248
Foreign exchange loss (gain)	693	(350)
Income tax expense	2,339	3,008
Adjusted EBITDA	33,274	24,443

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended March 31,	
Adjusted EBITDA	2019	2018
Revenue	146,614	120,571
Less:		
Direct costs	104,052	89,757
General and administrative expense	9,288	6,371
Adjusted EBITDA	33,274	24,443

“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 March 31,	
Adjusted EBITDA margin	2019	2018
Adjusted EBITDA	33,274	24,443
Revenue	146,614	120,571
Adjusted EBITDA margin	22.7%	20.3%

“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 March 31,	
Compliance EBITDA	2019	2018
Net profit	65,774	70,229
Add:		
Depreciation of property, plant and equipment	51,971	46,219
Finance cost	5,088	5,494
Income tax expense	29,148	6,948
Compliance EBITDA	151,981	128,890

“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)	March 31, 2019	December 31, 2018
Funded Debt		
Long-term debt	66,815	102,315
Current portion of long-term debt	33,408	-
Borrowings under credit facility	7,500	-
Lease liability ⁽¹⁾	9,995	-
Current portion of lease liability ⁽¹⁾	4,210	-
Total obligations	121,928	102,315
Add: issued letters of credit	3,778	3,856
Less: cash on hand ⁽²⁾	(10,000)	(10,000)
Funded Debt	115,706	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)	March 31, 2019	December 31, 2018
Tangible Net Worth		
Shareholders equity	342,735	366,502
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	(33,207)	(37,201)
Less: intangible assets and goodwill	(19,733)	(15,212)
Tangible Net Worth	289,795	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 first 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 first 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;
- The ability and benefits of Badger to purchase and subsequently cancel up to 2,000,000 of its common shares under its existing NCIB and its intention to pursue a new NCIB to purchase and subsequently cancel up to 2,000,000 common shares;

- Badger’s estimated 2019 and long-term target for general and administrative expenses as a percentage of revenue on an annualized basis;
- 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; 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.