



Management's Discussion and Analysis
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2020

November 4, 2020

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 nine months ended September 30, 2020. Readers should also refer to all previous public filings, including the Company's 2019 audited annual consolidated financial statements and notes thereto and the Annual Information Form for the year ended December 31, 2019, 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 November 4, 2020. 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		Nine months ended	
	September 30, 2020	2019	September 30, 2020	2019
Revenue:				
Hydrovac service revenue	149,663	176,515	408,216	472,084
Other revenue	7,190	7,228	19,799	19,483
Total revenue	156,853	183,743	428,015	491,567
RPT - Consolidated (mixed currency) ⁽¹⁾	28,347	36,088	n/a	n/a
RPT - U.S. (U.S. dollars) ⁽¹⁾	30,840	39,110	n/a	n/a
RPT - Canada (Canadian dollars) ⁽¹⁾	21,995	28,423	n/a	n/a
Adjusted EBITDA ⁽¹⁾	47,125	50,109	100,823	122,607
Adjusted EBITDA per share, basic and diluted ⁽¹⁾⁽²⁾	\$1.35	\$1.41	\$2.89	\$3.37
Adjusted EBITDA margin ⁽¹⁾	30.0%	27.3%	23.6%	24.9%
Profit before income tax	21,910	34,735	31,011	58,384
Net profit	16,153	25,839	22,922	43,819
Net profit per share, basic and diluted ⁽²⁾	\$0.46	\$0.73	\$0.66	\$1.20
Cash flow from operating activities before working capital and other adjustments	46,977	50,177	99,992	122,093
Cash flow from operating activities before working capital and other adjustments per share, basic and diluted ⁽²⁾	\$1.35	\$1.41	\$2.87	\$3.35
Dividends paid	5,229	5,067	15,430	15,064
Weighted average common shares outstanding ⁽²⁾⁽³⁾	34,853,838	35,472,696	34,873,262	36,421,889

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

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

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

Comparable IFRS Financial Information⁽¹⁾

(\$ thousands, except per share information)	Three months ended		Nine months ended	
	September 30, 2020	2019	September 30, 2020	2019
Cash flow from operating activities	31,705	21,421	107,217	70,961
Cash flow from operating activities per share, basic and diluted ⁽²⁾	\$0.91	\$0.60	\$3.07	\$1.95

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

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

2020 Third Quarter Financial and Operational Highlights

- Revenue was \$156.9 million or approximately 85% of the revenue realized in the same period in 2019. Revenue continues to be negatively impacted by ongoing economic uncertainty caused by the COVID-19 pandemic and slower economic activity. Early fourth quarter revenue is tracking at approximately 80% to 90% of the revenue level realized in the same period in 2019.
- Gross profit margin improved to 35.8% (34.6% excluding \$1.9 million in government assistance) and Adjusted EBITDA margin improved to 30.0% (28.7% excluding \$2.0 million in government assistance) as compared to 32.8% and 27.3% respectively for the same period in 2019.
- Improved margins contributed to Adjusted EBITDA of \$47.1 million, or 30.0% of revenue, as compared to \$50.1 million, or 27.3% of revenue, recorded for the same period in 2019.
- Direct operating and general and administrative (“G&A”) costs in the quarter benefitted from cost reduction initiatives completed in the second quarter. We continue to anticipate exiting 2020 with an annualized G&A cost run-rate of approximately \$40 million.
- RPT was \$28,347, compared to \$36,088 in the same period in 2019, and improved from \$23,458 realized in the second quarter of 2020.

Business Restructuring Activities

As disclosed with the Company's 2020 second quarter financial results, Badger executed a number of business restructuring and related cost reduction activities as part of its long term strategic initiatives to improve business processes, operating margins and profitability. The business restructuring activities involved a combination of headcount reductions, combined with internal business improvement initiatives following the implementation of the Company's new ERP. Business restructuring activities included the formation of a shared services center located at Badger's existing U.S. administrative center in Brownsburg, Indiana. The shared services center will enhance customer support functions while also providing more effective internal administrative capabilities. Non-recurring costs associated with business restructuring activities in the amount of \$6.3 million were incurred in the second quarter of 2020.

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

Government Assistance Summary

The Company's results include the benefit of its participation in the Canadian Emergency Wage Subsidy ("CEWS") program, which has been made available to eligible Canadian businesses that have been affected by the COVID-19 pandemic. The Company will continue to participate and monitor its eligibility for the CEWS program, in addition to reviewing its eligibility, if applicable, in any other government programs.

For the three months ended September 30, 2020, the Company's financial results include the following non-recurring items related to government programs.

	Direct costs	G&A	Total Non-recurring Items Included in Adjusted EBITDA	Non-Cash Impairments	Total
General business restructuring	-	-	-	-	-
Total business restructuring costs	-	-	-	-	-
CEWS	(1,922)	(110)	(2,032)	-	(2,032)
Total net non-recurring benefit	(1,922)	(110)	(2,032)	-	(2,032)

For the nine months ended September 30, 2020, the Company's financial results include the following non-recurring items related to a combination of business restructuring activities and government programs.

	Direct costs	G&A	Total Non-recurring Items Included in Adjusted EBITDA	Non-Cash Impairments ⁽¹⁾	Total
General business restructuring	1,594	2,706	4,300	563	4,863
Exit –Alberta-based oil field tank cleaning business	316	-	316	1,140	1,456
Total business restructuring costs	1,910	2,706	4,616	1,703	6,319
CEWS	(6,571)	(666)	(7,237)	-	(7,237)
Total net non-recurring expense (benefit)	(4,661)	2,040	(2,621)	1,703	(918)

⁽¹⁾ Non-cash impairments of nil and \$1.1 million have been included as a component of: Loss (gain) on sale and impairment of property, plant and equipment in the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2020, respectively.

Long-term Business Outlook

Badger remains focused on generating profitable, long-term, sustainable growth to support shareholder value creation. The Company continues to see meaningful long-term growth potential for non-destructive excavation services in the North American market despite the current economic impact from COVID-19.

Badger's long-term strategic and financial milestones consist of:

1. doubling the U.S. operation's revenue from fiscal 2020 over the next 3 to 5 years;
2. targeting annualized Adjusted EBITDA growth of 15% on average from fiscal 2020 over the next 3 to 5 years;
3. targeting annualized Adjusted EBITDA margins of 28% to 29%; and
4. targeting revenue per truck per month over \$30,000.

Results of Operations for the Three Months Ended September 30, 2020

Revenue

Revenue for the quarter was \$156.9 million or 85% of the \$183.7 million in revenue generated during the prior year's comparative quarter.

- Revenue in the U.S. operations was US\$94.6 million or 85% of the US\$110.8 million revenue generated in the prior year's comparative quarter.
 - U.S. revenue and underlying activity levels varied regionally due largely to the variability in the impact of COVID-19 on both general economic and construction specific activity levels. Revenue in the U.S. operations was also negatively impacted by reduced oil and gas customer demand in certain U.S. markets. Offsetting these impacts on revenue was approximately \$7.0 million in emergency response revenue as a result of hurricanes in the U.S. Gulf Coast.
 - Hydrovac customer rates in the U.S. operations were consistent with the prior year across the majority of markets.
 - U.S. revenue converted to Canadian dollars was \$125.9 million compared to \$146.3 million in the prior year's comparative quarter. The weighted average foreign currency rate used in the translation of U.S. dollar revenues to Canadian was CDN\$1.33 to US\$1.00, compared to CDN\$1.32 to US\$1.00 in the prior year.
- Revenue in the Canadian operations was \$30.9 million or 83% of the \$37.4 million revenue generated in the prior year's comparative quarter.
 - Canadian revenue and underlying activity levels were impacted by a combination of the impact of COVID-19 on the general Canadian economy and reduced oil and gas customer demand in Western Canada.
 - Hydrovac customer rates in the Canadian operations were consistent with the prior year across the majority of markets.
- Other services revenue was \$7.2 million for the quarter, which was consistent with the \$7.2 million generated in the prior year's comparative quarter. Other services revenue was positively impacted by an increase in customer demand for non-hydrovac related service lines, particularly in Badger's U.S. operations, combined with truck placement fees on new hydrovacs placed with operating partners.

Consolidated RPT for the quarter was \$28,347 compared to \$23,458 in the second quarter of 2020 and \$36,088 in the prior year's comparative quarter. RPT in the U.S. operations was US\$30,840, compared to US\$39,110 in the prior year's comparative quarter. RPT in Canadian operations was \$21,995, compared to \$28,423 in the prior year's comparative quarter. The reduction in RPT in both the U.S. and Canadian operations was due to reduced customer activity resulting from the impact of COVID-19 and the ongoing slowdown in oil and gas specific activity levels as noted above.

RPT as compared to the prior year's comparative quarter was also impacted by growth in the hydrovac fleet over the trailing twelve months. As at September 30, 2020, Badger had 1,400 hydrovacs in its fleet compared to 1,323 as at September 30, 2019.

Badger continues to focus on optimizing its fleet in response to rapidly changing economic activity brought on by COVID-19. The Company is uniquely positioned to be able to respond to changes in regional customer service requirements due to its large hydrovac fleet and extensive branch network.

Direct Costs

Direct costs for the quarter were \$100.7 million or 64.2% of revenue compared to \$123.5 million or 67.2% of revenue in the prior year's comparative quarter. Direct costs benefitted from improvements in operator labour efficiency, improvements in scheduling reducing the need for operator overtime, lower training, recruitment and general travel related costs and lower non-operator costs resulting from headcount reductions completed in the second quarter of 2020. Direct costs also benefitted from \$1.9 million in government assistance relating to the CEWS program. Costs related to fuel, insurance, repairs and maintenance were consistent with the prior year as a percentage of revenue. See "Business Restructuring Activities and Government Assistance Summary" for further details on non-recurring items included in direct costs.

Bad debt expense, which is included in direct costs, was \$1.3 million for the quarter, consistent with the prior year's comparative quarter of \$1.4 million.

Gross Profit

Gross profit for the quarter was \$56.2 million resulting in a gross profit margin of 35.8% compared to \$60.2 million and 32.8% for the prior year's comparative quarter. Gross profit margin in the U.S. operations was 33.7% compared to 32.8% for the prior year's comparative quarter. Gross profit margin in the Canadian operations was 44.2% compared to 32.8% in the prior year's comparative quarter.

Gross profit margins in the U.S. and Canadian operations were positively impacted by the business restructuring and related cost reduction initiatives implemented in the second quarter of 2020, improved labour efficiency and a reduction in non-labour related costs such as training and travel, as discussed above. In addition, the Canadian gross profit margin benefitted from \$1.9 million relating to the CEWS program. Average hydrovac customer rates were consistent across the majority of the U.S. and Canadian markets compared to the prior year's comparative quarter.

Badger anticipates that gross margins for the remainder of 2020 will continue to benefit from the cost reduction initiatives completed in the second quarter of 2020, combined with ongoing improvements in labour efficiency.

General and Administrative Expenses

G&A expense for the quarter was \$9.0 million or 5.8% of revenue compared to \$10.1 million or 5.5% of revenue in the prior year's comparative quarter. As previously disclosed, included in G&A expense for the quarter is \$0.1 million benefit from the CEWS program.

G&A expense for the quarter was positively impacted by the implementation of cost reduction initiatives completed in the second quarter of 2020, the absence of certain ERP expenditures incurred in the prior year's quarter and the benefit of the CEWS program. Badger continues to anticipate exiting 2020 with an annualized G&A cost run-rate of approximately \$40 million.

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

Depreciation and amortization expense was \$18.5 million for the quarter compared to \$16.1 million in the prior year's comparative quarter. The increase in depreciation and amortization expense is the result of capital expenditures incurred during the previous four quarters.

Share-based Compensation Expense

Share-based compensation expense was \$6.1 million in the quarter compared to a recovery of \$2.4 million in the prior year's comparative quarter. The increase in the expense is due to the increase in the market value of Badger's common shares during the quarter. Share-based compensation expense will fluctuate based on the effects of the movement in Badger's share price, combined with the impact of normal course vesting of previously issued long-term incentive plan grants and the issuance, if any, of new long-term incentive plan grants.

Gain or Loss on Sale and Impairment of Property, Plant and Equipment

Gain or loss on sale and impairment of property, plant and equipment for the quarter was a gain of \$0.4 million compared to a gain of \$0.2 million in the prior year's comparative quarter.

Gains or losses on the sale of property, plant and equipment are the result of the proceeds on the disposal of general equipment and hydrovac units retired and disposed of, being greater than or less than the residual book value. Gains or losses on the disposition of property, plant and equipment will vary depending on the timing and type of equipment being disposed of in a respective quarter.

Finance Cost

Finance costs, which consist primarily of interest on the Company's senior secured notes, syndicated revolving credit facility, standby fees on the syndicated revolving credit facility and finance costs associated with lease liabilities, were \$1.7 million for the quarter, \$0.2 million lower than the prior year's comparative quarter of \$1.9 million. The decrease in finance costs was due to lower overall debt obligations as compared to the prior year's comparative quarter.

As at September 30, 2020, the Company's debt obligations, excluding the impact of normal course operating leases and outstanding letters of credit, consisted of \$85.0 million drawn on the Company's syndicated revolving credit facility, US\$50.0 million of senior secured notes and \$17.0 million in lease liabilities, all of which are further described herein.

Income Tax

Total income tax expense for the quarter was \$5.8 million compared to \$8.9 million in the prior year's comparative quarter. Total income tax expense for the quarter included \$5.9 million in current income tax and \$0.1 million in deferred income tax recovery. Total income tax expense for the quarter of 2019 included \$2.8 million in current income tax expense and \$6.1 million in deferred income tax expense.

Current income tax expense of \$5.9 million is comprised of a \$6.0 million U.S. current income tax expense (Q3 2019 – \$2.7 million expenses) and a \$0.1 million Canadian current income tax recovery (Q3 2019 – \$0.1 million expense). The change in U.S. and Canadian current income taxes is due primarily to changes in underlying taxable income.

Deferred income tax recovery for the quarter was \$0.1 million compared to a deferred income tax expense of \$6.1 million in the prior year's comparative quarter. The change in deferred income tax expense is due primarily to a reduction in the number of hydrovacs put into service in the current year quarter.

Net Profit

Net profit for the quarter was \$16.2 million compared to the prior year's comparative quarter net profit of \$25.8 million. Net profit was impacted by lower revenue and gross profit, lower G&A expenses, higher share-based plan expense, higher depreciation and amortization expense, offset in part by reduced income taxes, all of which is fully described previously in this MD&A.

Other Comprehensive Income

Total other comprehensive income (loss) ("OCI"), which includes the effect of translating U.S. operations into Canadian dollars, and the offsetting translation of U.S. dollar denominated senior secured notes into Canadian dollars that are designated as a hedge of the U.S. operations, resulted in an OCI loss of \$6.6 million for the quarter compared to OCI of \$2.8 million in the prior year's comparative quarter. The change in OCI for the quarter is the result of the U.S. dollar weakening relative to the Canadian dollar throughout the quarter. OCI does not impact Badger's cash flow from operations or Adjusted EBITDA.

Liquidity and Dividends

Cash flow from operating activities for the quarter was \$31.7 million, \$10.3 million higher than the prior year's comparative quarter of \$21.4 million. The increase in cash flow from operating activities resulted from a reduction in non-cash working capital requirements due to the Company's ongoing efforts to improve the timely collection of accounts receivables. See the interim 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 \$47.0 million in the quarter, \$3.2 million lower than the prior year's comparative quarter of \$50.2 million. The reduction in cash flow from operating activities before non-cash working capital and other adjustments was due primarily to modestly lower Adjusted EBITDA.

Working capital is a normal course component of Badger's business. Changes in working capital levels may result from increasing or decreasing revenue, the seasonality in the operations, the timing of the collection of receivables and the payment of payables, the timing of capital expenditures and the impact of fluctuations in foreign currency exchange rates. Working capital totaled \$89.0 million as at September 30, 2020, compared to \$87.4 million as at December 31, 2019. The change in working capital as at September 30, 2020 resulted from a reduction in trade accounts receivables and income tax receivables combined with reduced trade payables, offset by an increase in cash and cash equivalents. The increase in cash and cash equivalents is due to the Company's plan to maintain modestly higher cash on hand in light of the potential volatility in financial markets as a result of the COVID-19 pandemic. As at November 4, 2020, the Company has not incurred, nor does it currently anticipate, any limitations in its ability to access liquidity under its various credit facilities.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totaled \$177.1 million as at September 30, 2020, \$5.1 million lower than the balance as at December 31, 2019, of \$182.2 million. The decrease in trade receivables and other receivables is due to the normal course collection of trade receivables during the quarter, offset in part, by the impact of a stronger U.S. dollar on the revaluation of U.S. denominated receivables. Included in total trade and other receivables at September 30, 2020, was \$8.3 million in accrued revenue compared to \$3.0 million at December 31, 2019. Accrued revenue at September 30, 2020, relates to services performed prior to September 30, 2020; accrued revenue is recognized when it meets the requirements of Badger's revenue recognition policy.

As at September 30, 2020, 77% of Badger's trade receivables were aged 90 days or less compared to December 31, 2019, which was 80%. The Company continues to actively manage its receivables portfolio and drive further improvements in all aspects of the cash collection cycle. The implementation of supplemental credit and collections processes throughout the first half of 2020, including the overall management of the collections function, has resulted in improved accounts receivable collection metrics. The Company continues to target further improvements in its accounts receivable and collection metrics throughout the remainder of 2020 and into 2021.

The Company uses its cash and cash equivalents for the purchase and manufacture of property, plant and equipment, to fund day-to-day operations, pay dividends, 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 various credit facilities. Badger's access to liquidity, through a combination of cash flows from operating activities and its various credit facilities, is sufficient to meet the existing operational and capital expenditures of the business. Cash flows from operating activities are subject to variations and risks associated with the normal course operations of the business, including the impact of the seasonality within the business and the normal course timing and collection of working capital. See "Financing" for a summary of the key terms, conditions and unutilized capacity of the Company's various credit facilities.

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

Capital Resources

Investing

Badger invested \$16.1 million in total capital expenditures during the quarter, compared to \$37.8 million in the prior year's comparative quarter. Capital expenditures during the quarter were primarily related to the production of a Fifth Generation and specialty hydrovac units.

As disclosed on April 1, 2020, Badger reduced production of hydrovacs in response to reduced customer activity levels due to COVID-19. Hydrovacs that were in production prior to April 1, 2020 were completed in the normal course. The Company expects to continue to manufacture additional Fifth Generation hydrovac and specialty units throughout 2020.

For the quarter, Badger completed 11 hydrovacs, compared to 55 hydrovacs in the third quarter of 2019.

Capital Expenditures

(\$ thousands)	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Hydrovac completed units and work-in-progress ⁽¹⁾⁽²⁾	7,484	31,472	32,953	71,965
Other vehicles and trailers	6,197	3,341	6,652	4,402
Buildings	1,387	-	2,572	-
Other	887	1,852	952	2,848
Total expenditures of property, plant and equipment	15,955	36,665	43,129	79,215
Upfront payments for right-of-use assets ⁽³⁾	180	1,133	916	4,082
Total capital expenditures	16,135	37,798	44,045	83,297

(1) Total work-in-progress ("WIP"), including chassis, recognized on Badger's balance sheet as at September 30, 2020, and 2019, was \$16.9 million and \$19.9 million, respectively. The net change in WIP for the three months ended September 30, 2020, was a cash outflow of \$0.7 million and for the three months ended September 30, 2019, was a net inflow of \$11.4 million. The net change in WIP is included in hydrovac completed units and work-in-progress in the above table.

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

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

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 service.

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 2019 annual MD&A.

Financing

Syndicated Revolving Credit Facility

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

The syndicated revolving credit facility bears interest, at the Company's option, at either the bank's prime rate plus a tiered set of basis points or bankers' acceptance ("BA")/London interbank offered rate ("LIBOR") also with a tiered structure. A standby fee is also required on the unused portion of the Credit Facility on a tiered basis. The prime rate tiers range between zero and 175 basis points. The BA/LIBOR tiers range from 120 to 300 basis points. The standby fee tiers range between 24 and 60 basis points. All of the tiers are based on the Company's Total Debt to Compliance EBITDA ratio. Standby fees are expensed as incurred.

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

As at September 30, 2020, the Company had \$85.0 million outstanding on its syndicated revolving credit facility (December 31, 2019 – \$67.2 million) and had issued letters of credit of \$5.0 million (December 31, 2019 – \$4.4 million). The outstanding letters of credit, which reduce the amount of available credit under the facility, support the U.S. insurance program and certain other performance bonds.

Supplemental Credit Facility

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

As at September 30, 2020, the Company had no amounts outstanding on its supplemental credit facility.

As at September 30, 2020, the Company has approximately \$20.1 million of cash and cash equivalents and has access to approximately \$310 million of borrowing capacity under its committed credit facilities in respect of which all conditions precedent had been met.

Senior Secured Notes

On January 24, 2014, Badger closed a private placement of senior secured notes with an original principal of US\$75.0 million. The notes, which rank pari passu with the Credit Facility and the Supplemental Credit Facility, have a current principal amount outstanding of US\$50.0 million (\$68.1 million Canadian equivalent as at September 30, 2020) and an interest rate of 4.83% per annum and mature on January 24, 2022. A repayment of US\$25.0 million, as required under the terms of the notes, was completed on January 24, 2020, utilizing the Company's syndicated revolving credit facility. The remaining amortizing principal repayments of US\$25.0 million are due under the notes on January 24, 2021, and January 24, 2022. Interest is paid semi-annually in arrears. The Canadian dollar equivalent on January 24, 2014, was \$82.9 million.

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

Lease Liability

As at September 30, 2020, the Company had \$17.0 million in lease liabilities (December 31, 2019 – \$17.2 million) related primarily to operating and administrative building lease arrangements. There is no lease liability associated with the Company's light-duty vehicle leases as the full consideration of the underlying lease is paid at the inception of the lease.

Compliance

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

Select Financial covenants ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	September 30, 2020	December 31, 2019	Threshold
Total Debt to Compliance EBITDA Credit Facility	1.2:1	1.2:1	4.00:1 max
Total Debt to Compliance EBITDA Senior Secured Notes	1.2:1	1.2:1	2.75:1 max
Interest Coverage Ratio Credit Facility	15.1:1	21.6:1	3.00:1 min
Interest Coverage Ratio Senior Secured Notes	15.2:1	21.2:1	3.00:1 min
Tangible Net Worth	\$279.4 million	\$275.7 million	\$204.7 million

- (1) See "Non-IFRS Financial Measures" for additional details on the calculation of Total Debt, Compliance EBITDA and Tangible Net Worth.
- (2) Total Debt to Compliance EBITDA Credit Facility as at September 30, 2020, calculated as \$153.5 million in Total Debt divided by \$131.5 million of Compliance EBITDA and for December 31, 2019, calculated as \$177.3 million in Total Debt divided by \$149.1 million of Compliance EBITDA.
- (3) Total Debt to Compliance EBITDA senior secured notes as at September 30, 2020, calculated as \$163.6 million in Total Debt divided by \$132.0 million of Compliance EBITDA and for December 31, 2019, calculated as \$177.3 million in Funded Debt divided by \$149.1 million of Compliance EBITDA.
- (4) The Interest Coverage Ratio Credit Facility is calculated as Compliance EBITDA divided by interest expense. For the twelve months ended September 30, 2020, calculated as \$131.5 million in Compliance EBITDA divided by \$8.7 million in interest expense and for the twelve months ended December 31, 2019, calculated as \$149.1 million in Compliance EBITDA divided by \$6.9 million in interest expense. Interest expense is calculated in accordance with IFRS on a trailing 12-month basis.
- (5) The Interest Coverage Ratio senior secured notes is calculated as Compliance EBITDA divided by interest expense. For the twelve months ended September 30, 2020, calculated as \$132.0 million in Compliance EBITDA divided by \$8.7 million in interest expense and for the twelve months ended December 31, 2019, calculated as \$146.6 million in Compliance EBITDA divided by \$6.9 million in interest expense. Interest expense is calculated in accordance with IFRS on a trailing 12-month basis.

Throughout the quarter and as at September 30, 2020, the Company was in compliance with all covenants. For additional details on the syndicated revolving credit facility and the senior secured notes, including the financial and non-financial covenants, see the Company's 2019 audited consolidated financial statements and the Company's 2019 Annual Information Form.

Off-Balance Sheet Arrangements

As at September 30, 2020, and December 31, 2019, the Company did not have any material off-balance sheet arrangements.

Share Capital

As at September 30, 2020, the number of common shares outstanding was 34,853,838 (December 31, 2019 – 34,933,738). The weighted average common shares outstanding for the three months ended September 30, 2020, was 34,853,838 (December 31, 2019 – 35,825,820).

As at November 4, 2020, the number of common shares outstanding was 34,853,838. Badger does not currently have any material financial instruments which can be converted into additional common shares.

Refer to the Company's unaudited interim condensed consolidated financial statements for the three months ended September 30, 2020, and "Normal Course Issuer Bid" for additional details on changes to share capital.

Normal Course Issuer Bid

During the quarter, the Company did not purchase and cancel any of its common shares under a NCIB program. The Company's prior NCIB program, allowing the repurchase of up to 2,000,000 common shares expired in the normal course on May 20, 2020.

On a cumulative basis, since May 21, 2019, to the period ended May 20, 2020, the Company purchased and cancelled 1,025,600 common shares at a weighted average price per share of \$41.40 under its recently expired NCIB. On a cumulative basis, since the fourth quarter of 2018, to the period ended September 30, 2020, the Company has purchased and cancelled 2,287,668 common shares at a weighted average price per share of \$36.61.

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 various credit facilities, 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 third quarter unaudited interim condensed consolidated financial statements.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash flows from financial assets on hand at the balance sheet date. A substantial portion of the Company's trade receivables are 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 or the London interbank offered rate and is dependent on the nature of the borrowing. Interest rates are subject to change. As at September 30, 2020, the Company had \$85.0 million drawn on its syndicated revolving term credit facility which is subject to a floating interest rate. The Company does not use interest rate hedges, fixed interest rate contracts or other similar derivative instruments to manage its exposure to interest rate fluctuations, but has issued fixed rate senior secured notes (US\$50.0 million outstanding as at September 30, 2020) which fixes interest exposure on a portion of the Company's total debt obligations.

Foreign exchange risk

The Company is exposed to foreign currency fluctuations as revenue and expenses derived from United States operations are denominated in United States dollars. The United States subsidiaries are subject to translation gains and losses on consolidation. The Company's Canadian operations purchase certain products in United States dollars. Foreign exchange gains and losses are included in net profit while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the Company's United States operations are included in OCI. The Company also holds United States dollar denominated debt, with US\$50.0 million of senior secured notes which are used to manage, in part, the exposure to foreign exchange gains and losses arising from the translation of its United States functional currency operations included in OCI. The Company does not utilize foreign currency forward contracts or similar derivative instruments to manage its exposure to foreign currency fluctuations.

Selected Quarterly Financial Information

(\$ thousands, except per share amounts)	2020			2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	156,853	134,484	136,678	162,715	183,743	161,210	146,614	178,609
Net profit	16,153	1,701	5,068	15,913	25,839	11,949	6,031	23,468
Net profit per share, basic and diluted (\$)	\$0.46	\$0.05	\$0.15	\$0.45	\$0.73	\$0.33	\$0.16	\$0.63
Dividends paid	5,229	5,229	4,972	5,001	5,067	5,112	4,885	5,009
Dividends per share, basic and diluted (\$)	\$0.150	\$0.150	\$0.145	\$0.140	\$0.140	\$0.140	\$0.135	\$0.135

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

- General changes in economic growth and overall macro-economic conditions in both the U.S. and Canada;
- Increased usage and demand for Badger's hydrovac services, particularly in the U.S., which is Badger's largest market. The increase in customer demand has typically resulted in an increase in revenues, gross dollar direct costs, general and administrative expenses and Adjusted EBITDA;
- The impact of COVID-19, effective March 2020, related to customer demand and general economic activity levels, including the benefits and costs associated with business restructuring and cost reduction initiatives executed in the first and second quarters of 2020, and the curtailment of hydrovac truck production;
- The seasonality within Badger's business as a result of the seasonal upswing in construction activity, the impact of which will typically result in higher activity levels in the second, third and fourth quarters, with reduced activity levels in the first quarter due to the normal course slowdown in certain northern markets during the winter construction season;
- Impact of unusual and/or non-typical weather conditions such as natural disasters, general precipitation levels or extreme winter weather conditions which may impact the timing and level of customer demand;
- Timing of customer emergency response services due to natural disasters;
- Additional investments related to the manufacture of hydrovac units and an increase in working capital requirements associated with the underlying growth in the business;
- The execution and implementation of Badger's Common Business Platform/ERP project; and
- Updated U.S. income tax legislation, effective December 22, 2017, which had a one-time impact on Badger's 2018 current income tax expense.

Key Financial Metrics and Other Operational Metrics

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

Revenue per truck per month – United States

	Three months ended September 30,	
	2020	2019
Total revenue	125,930	146,335
Less: Other revenue	2,265	1,284
Hydrovac revenue	123,665	145,051
Foreign exchange rate ⁽¹⁾	1.3313	1.3208
Hydrovac revenue - U.S. equivalent	92,890	109,821
Average hydrovacs ⁽²⁾	1,004	936
RPT (U.S. dollars) ⁽³⁾	30,840	39,110

Revenue per truck per month – Canada

	Three months ended September 30,	
	2020	2019
Total revenue	30,923	37,408
Less: Other revenue	4,925	5,944
Hydrovac revenue	25,998	31,464
Average hydrovacs ⁽²⁾	394	369
RPT ⁽³⁾	21,995	28,423

Revenue per truck per month – Consolidated (mixed currency)

	Three months ended September 30,	
	2020	2019
Hydrovac revenue - U.S.	92,890	109,821
Hydrovac revenue - Canada	25,998	31,464
Total hydrovac revenue	118,888	141,285
Average hydrovacs ⁽²⁾	1,398	1,305
RPT ⁽³⁾	28,347	36,088

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

⁽²⁾ See “Fleet Summaries” for additional details.

⁽³⁾ 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

	2020			2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Canada	399	390	382	380	371	366	357	355
U.S.	999	1,008	1,017	981	949	922	884	866
	1,398	1,398	1,399	1,361	1,320	1,288	1,241	1,221
Hydrovac operator training center ⁽¹⁾	2	3	3	3	3	2	-	-
Total	1,400	1,401	1,402	1,364	1,323	1,290	1,241	1,221

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

Average number of hydrovacs during the period ⁽¹⁾

	2020			2019					2018	
	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4
Canada	394	386	381	367	376	369	362	356	359	356
U.S.	1,004	1,013	999	924	965	936	903	875	807	859
Total	1,398	1,399	1,380	1,291	1,341	1,305	1,265	1,231	1,166	1,215

⁽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	2020			2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Canada	15	15	15 ⁽⁵⁾	14	14 ⁽³⁾	11 ⁽²⁾	10 ⁽¹⁾	9
U.S.	2	2	2 ⁽⁶⁾	3	3 ⁽⁴⁾	4	4	4

⁽¹⁾ A new Canadian based operating partner agreement was executed during the first quarter of 2019.

⁽²⁾ A new Canadian based operating partner agreement was executed during the second quarter of 2019.

⁽³⁾ Three new Canadian based operating partner agreements were executed during the third quarter of 2019.

⁽⁴⁾ Badger purchased the assets of a U.S. based franchisee to facilitate the franchisee's exit from the business.

⁽⁵⁾ A new Canadian based operating partner agreement was executed during the first quarter of 2020.

⁽⁶⁾ A U.S. based franchise agreement was terminated in the first quarter of 2020.

Foreign Exchange Rates

1 USD:CAD	2020			2019					2018	
	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4
Period weighted average ⁽¹⁾	1.3313	1.3839	1.3451	1.3267	1.3201	1.3208	1.3374	1.3296	1.2992	1.3191
Period end	1.3339	1.3628	1.4187	1.2988	1.2988	1.3243	1.3087	1.3363	1.3642	1.3642

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

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

Non-IFRS Financial Measures

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

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

Adjusted EBITDA is calculated as follows:

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
Adjusted EBITDA	2020	2019	2020	2019
Net profit	16,153	25,839	22,922	43,819
Add:				
Depreciation and amortization	18,452	16,125	55,484	46,214
Share-based compensation expense	6,122	(2,408)	6,551	12,931
Loss (gain) on sale and impairment of property, plant and equipment	(416)	(170)	1,302	(390)
Finance cost	1,703	1,910	6,665	4,882
Foreign exchange loss (gain)	(646)	(83)	(190)	586
Income tax expense	5,757	8,896	8,089	14,565
Adjusted EBITDA	47,125	50,109	100,823	122,607

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
Adjusted EBITDA	2020	2019	2020	2019
Revenue	156,853	183,743	428,015	491,567
Less:				
Direct costs	100,687	123,506	295,138	338,185
General and administrative expense	9,041	10,128	32,054	30,775
Adjusted EBITDA	47,125	50,109	100,823	122,607

“Adjusted EBITDA margin” is Adjusted EBITDA as defined above, expressed as a percentage of revenues.

Adjusted EBITDA margin is calculated as follows:

(\$ thousands except for percentages)	Three months ended		Nine months ended	
	September 30,		September 30,	
Adjusted EBITDA margin	2020	2019	2020	2019
Adjusted EBITDA	47,125	50,109	100,823	122,607
Revenue	156,853	183,743	428,015	491,567
Adjusted EBITDA margin	30.0%	27.3%	23.6%	24.9%

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

Normalized net profit is calculated as follows:

(\$ thousands, except per share information)	Three months ended		Nine months ended	
	September 30,		September 30,	
Normalized net profit	2020	2019	2020	2019
Net profit	16,153	25,839	22,922	43,819
Add:				
Share-based compensation	6,122	(2,408)	6,551	12,931
Loss (gain) on sale and impairment of property, plant and equipment	(416)	(170)	1,302	(390)
Foreign exchange loss (gain)	(646)	(83)	(190)	586
Business restructuring	-	-	4,616	-
Canadian Emergency Wage Subsidy benefit	(2,032)	-	(7,237)	-
Bad debt relating to PG&E accounts receivable	-	-	-	770
Sale of PG&E accounts receivable	-	-	-	(4,969)
Normalized net profit before tax effect of normalizing adjustments	19,181	23,178	27,964	52,747
Income tax expense (recovery) related to normalizing adjustments	799	(551)	1,315	2,227
Normalized net profit	18,382	23,729	26,649	50,520
Normalized net profit per share, basic and diluted⁽¹⁾	\$0.53	\$0.66	\$0.76	\$1.39

⁽¹⁾ Per share, basic and diluted measures calculated by dividing the respective financial measure with the weighted average common shares outstanding for the three months ended September 30, 2020 of 34,853,838 (September 30, 2019 – 35,854,547) and for the nine months ended September 30, 2020 of 34,873,262 (September 30, 2019 – 35,937,865). See “Share Capital” for details.

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

Compliance EBITDA is calculated as follows:

(\$ thousands)	Twelve months ended September 30,	
Compliance EBITDA	2020	2019
Net profit	38,835	67,287
Add:		
Depreciation and amortization, including non-cash impairments	74,497	58,252
Finance cost	8,700	6,138
Income tax expense	9,990	23,044
Compliance EBITDA – for purposes of senior secured notes	132,022	154,721
Add:		
Foreign currency revaluations	(1,267)	21
Loss on sale of property, plant and equipment	45	(594)
Share-based payments	726	8,296
Compliance EBITDA – for purposes of credit facilities ⁽¹⁾	131,526	162,444

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

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

Total Debt is calculated as follows:

(\$ thousands)	September 30, 2020	December 31, 2019
Total Debt		
Long-term debt	33,348	64,940
Current portion of long-term debt	33,348	32,470
Borrowings under credit facility	85,000	67,157
Lease liability	11,094	11,442
Current portion of lease liability	5,873	5,709
Total obligations	168,663	181,718
Add: issued letters of credit	4,974	4,401
Less: cash on hand up to \$10.0 million ⁽¹⁾	(10,000)	(8,801)
Total Debt – for purposes of senior secured notes	163,637	177,318
Less: cash on hand greater than \$10.0 million up to \$50.0 million	(10,136)	-
Total Debt – for purposes of credit facilities ⁽²⁾	153,501	177,318

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

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

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

Tangible Net Worth is calculated as follows:

(\$ thousands)	September 30, 2020	December 31, 2019
Tangible Net Worth		
Shareholders equity	346,036	330,671
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	(32,995)	(22,963)
Less: intangible assets and goodwill	(33,617)	(32,018)
Tangible Net Worth	279,424	275,690

Critical Accounting Policies and Estimates

The Company’s significant accounting policies are set out in Note 4 of the 2019 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, 2019. 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 2019 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 unaudited 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 2019 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 third quarter of 2020.

Inherent Limitations

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

Risk Factors

A comprehensive listing of the Company's risk factors is set out in the Company's 2019 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 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:

- The anticipated benefit of the continual review of all aspects of Badger's operations, including the execution of cost reduction initiatives, as it relates to Badger's financial results and financial position, including the impact on revenues, pricing, operating costs, margins and the optimization of its fleet;
- Anticipated revenue, RPT and customer activity levels for the full year and fourth quarter of 2020;
- The expectation that restructuring activities and cost reduction initiatives executed in the second quarter of 2020 will continue to benefit financial results;
- The expectations for 2020 G&A expense, including the ability to reduce G&A expense through restructuring activities and cost reduction initiatives;
- Badger's intention to curtail the manufacture of hydrovac units and other capital expenditures throughout the remainder of 2020;
- Badger's expectation to continue to optimize asset utilization;
- The monitoring of potential impacts of COVID-19 on all aspects of Badger's business, including the impact on the demand for Badger's services;
- Badger's intention to participate in all applicable government programs for employees, as well as at the corporate level;
- The anticipated effects of the shared services center, including enhancing Badger's customer support functions and improving internal administrative capabilities;
- The timing, and the impact on the business, if any, of achieving Badger's long-term strategic financial and operational milestones;
- The expectation that Badger's business model, operating scale and financial position will enable it to manage effectively through the current uncertain economic environment as a result of COVID-19, and that the long-term growth potential of non-destructive excavation will not be adversely impacted by the same;

- Badger’s ability to continue to grow its business, including revenue, as a result of capitalizing on the long-term growth opportunity in the North American hydrovac business;
- Badger does not anticipate any limitations in its ability to access liquidity under its various credit facilities; and
- The benefits, if any, that Badger’s operational scale creates related to financial and operating performance.

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

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

Risk factors and other uncertainties that could cause actual results to differ materially from those anticipated in such forward-looking statements include, but are not limited to: the magnitude and length of the global, national and regional economic and social disruption being caused as a result of the global COVID-19 pandemic; national, regional and local governmental laws, regulations and orders relating to the COVID-19 pandemic that may materially adversely impact the Company's ability to continue operations; political and economic conditions; industry competition; price fluctuations in commodity markets and related products and services; Badger’s ability to attract and retain key personnel; the availability of future debt and equity financing; changes in laws or regulations, including taxation and environmental regulations; extreme or unsettled weather patterns; and fluctuations in foreign exchange or interest rates.

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.