



Management's Discussion and Analysis
FOR THE THREE AND NINE MONTHS ENDED
September 30, 2021

November 4, 2021

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 Infrastructure Solutions Ltd. (the "Company" or "Badger") as at and for the three and nine months ended September 30, 2021 and 2020. This MD&A is a review of the financial results of Badger and has been prepared in accordance with International Financial Reporting Standards ("IFRS"). Readers should also refer to all previous public filings, including the Company's Annual Information Form and MD&A for the year ended December 31, 2020, 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, 2021. All references to "dollars" and "\$" are to the currency of Canada unless otherwise indicated. Effective January 1, 2022, Badger will begin reporting results in U.S. dollars to improve year over year comparability given foreign exchange rate fluctuations as the majority of its business activities are denominated in U.S. dollars. The change in presentation currency will be reflective in its first quarter 2022 financial results.

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 works for contractors and facility owners in a broad range of infrastructure industries. These market segments consist primarily of infrastructure projects in areas such as energy generation, electricity and natural gas transmission networks, roads and highways, telecommunications, water and sewage treatment and general municipal infrastructure. Customers in these segments typically operate near high concentrations of underground power, communication, water, gas and sewer lines, particularly in large urban centres where safety and economic risks are high and therefore non-destructive excavation provides a safe alternative for certain customer excavation requirements. The Company's key technology is the Badger Hydrovac™, which is used primarily for safe excavation around critical infrastructure and in congested underground 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 and designs its truck-mounted hydrovac units, giving Badger the opportunity to incorporate feedback from its hydrovac operators into its existing and future design and manufacturing processes.

Badger's business model involves the provision of excavating services through two distinct channels to market: 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. Badger continues to own the trucks and work is invoiced by Badger and then shared with the operating partner based upon a revenue sharing formula. Badger's operating partners are an important part of Badger's operations. Badger pursues expansion into new geographic areas primarily through Badger corporate operations and seeks operating partners in certain markets.

Financial Highlights

<i>(\$ thousands, except revenue per truck per month ("RPT"), per share and share information)</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Revenue:				
Hydrovac service revenue	164,202	149,663	396,247	408,216
Other revenue	7,551	7,190	19,566	19,799
Total revenue	171,753	156,853	415,813	428,015
RPT - Consolidated (mixed currency) ⁽¹⁾	33,248	28,347	n/a	n/a
RPT - U.S. (U.S. dollars) ⁽¹⁾	36,806	30,840	n/a	n/a
RPT - Canada (Canadian dollars) ⁽¹⁾	24,113	21,995	n/a	n/a
Adjusted EBITDA ⁽¹⁾	35,755	47,125	55,654	100,823
Adjusted EBITDA per share, basic and diluted ⁽¹⁾⁽²⁾	\$1.04	\$1.35	\$1.61	\$2.89
Adjusted EBITDA margin ⁽¹⁾	20.8%	30.0%	13.4%	23.6%
Profit (loss) before income tax	16,935	21,910	(5,905)	31,011
Net profit (loss)	12,407	16,153	(5,347)	22,922
Net profit (loss) per share, basic and diluted ⁽²⁾	\$0.36	\$0.46	(\$0.15)	\$0.66
Cash flow from operating activities before working capital and other adjustments	35,797	46,977	55,425	99,992
Cash flow from operating activities before working capital and other adjustments per share, basic and diluted ⁽²⁾	\$1.04	\$1.35	\$1.60	\$2.87
Dividends paid	5,446	5,229	16,161	15,430
Weighted average common shares outstanding ⁽²⁾⁽³⁾	34,537,761	34,853,838	34,643,561	34,873,262

(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⁾

<i>(\$ thousands, except per share information)</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Cash flow from operating activities	1,918	31,705	42,255	107,217
Cash flow from operating activities per share, basic and diluted ⁽²⁾	\$0.06	\$0.91	\$1.22	\$3.07

(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.

Business Outlook and Strategic Milestones

Badger's third quarter revenue improved year-over-year and from the first half of the year. Continuing from the second quarter, individual regions and customers are recovering. Both Canada and the U.S. gross margins improved from the second quarter as market activity levels improved. Badger will continue to focus on its customer base and sales, ongoing focus on matching direct costs to future anticipated revenue and continued review of operating costs.

Badger's business model targets having an operator and truck available when a customer requires one. In accordance with Badger's business model, Badger has rehired, hired and trained a large number of operators since October 2020. Badger is focusing closely on its customers and reviewing all aspects of its operating expenses to balance revenue and expenses in the short term while ensuring that service capacity is in place when needed over the medium and long term.

Badger serves a broad range of infrastructure end use markets mainly in the non-residential construction segment. The year-to-date U.S. non-residential spending in 2021, as published by the U.S. Census Bureau's U.S. construction put-in-place statistics, has declined from 2020 levels and underperformed previous forecast levels. By comparison, Badger's 2021 revenue recovery in the third quarter has outpaced the year-over-year U.S. non-residential spending trends and the Company's 2020 revenue levels. Badger's third quarter revenue growth has reflected the continuing progress of the recovery from COVID-19 and the typical summer construction activity.

Badger continues to see substantial growth opportunities in the North American non-destructive excavation market to support the maintenance, upgrade and expansion of its critical infrastructure. The need to reinvest in North America's critical infrastructure and adapt to new sustainable technology has been emphasized by the proposed government infrastructure plans. In preparation to address these substantial growth opportunities, Badger continues to invest in its organizational design, management capabilities and key strategic initiatives to grow Badger's business and maximize shareholders' value.

Badger is looking toward the future and continues to see substantial, long-term growth opportunities in servicing North America's critical underground infrastructure with non-destructive excavation solutions. Badger continues to strive to achieve its 2025 strategic milestones, which are:

- Doubling the U.S. operation's revenue from fiscal 2020 over the next 3 to 5 years;
- Targeting annualized Adjusted EBITDA growth of 15% on average from fiscal 2020 over the next 3 to 5 years;
- Targeting annualized Adjusted EBITDA margins of 28% to 29%; and
- Targeting revenue per truck per month over \$30,000 (mixed currency).

Results of Operations for the Three Months Ended September 30, 2021

Revenue

Revenue was \$171.8 million, \$14.9 million or 9.5% higher than the \$156.9 million in revenue generated during the prior year. Third quarter revenue included \$14.0 million in emergency response revenue compared with \$7.0 million in the prior year. Normalized for the changes in foreign exchange, revenue was 15% higher than the prior year.

Revenue in the U.S. operations was US\$111.6 million, 18% higher than the US\$94.6 million revenue generated in the prior year. Refer to “Selected Quarterly Financial Information” for U.S. revenue in U.S. dollars by quarter.

- U.S. revenue included US\$11.1 million in emergency response revenue compared with US\$5.3 million in the prior year.
- Revenue run rates improved over the course of the quarter with total third quarter revenue increasing by 24% compared with the second quarter of 2021, reflecting the impact of the construction season ramp up and continued recovery from the novel coronavirus (“COVID-19”) pandemic.
- Revenue and underlying activity levels improved overall compared with the prior year quarter but varied regionally due to the impact of newly emerging COVID-19 variants.
- Revenue was negatively impacted by reduced oil and gas customer demand in certain markets.
- Hydrovac customer hourly rates were comparable to the prior year across the majority of markets.

Revenue in the Canadian operations was \$31.1 million, \$0.2 million higher than the \$30.9 million revenue generated in the prior year.

- Revenue run rates improved in the quarter with total third quarter revenue increasing by 25% from the second quarter of 2021, reflecting the impact of the construction season ramp up.
- Revenue and underlying activity levels were affected by the impact of COVID-19 on the general Canadian economy as well as continued lower levels of oil and gas customer demand in Western Canada.
- Hydrovac customer hourly rates were comparable to the prior year across the majority of markets.

Other services revenue was \$7.6 million for the quarter, compared with \$7.2 million generated in the prior year. Other services revenue was positively impacted by an increase in customer demand for other non-destructive excavation related service lines, particularly in Badger’s U.S. operations offset in part by a decrease in truck placement fees on new hydrovacs placed with operating partners compared with the prior year.

The Company generates a significant portion of its revenue in U.S. dollars but presents its results in Canadian dollars. Therefore, year over year variances in revenue and expenses in local currency are impacted by changes in the average exchange rates upon conversion into Badger’s presentation currency. Effective January 1, 2022, Badger will begin reporting results in U.S. dollars to improve year over year comparability given foreign exchange rate fluctuations as the majority of its business activities are denominated in U.S. dollars. The change in presentation currency will be reflective in its first quarter 2022 financial results.

The weighted average foreign currency rate used in the translation of U.S. to Canadian dollars was approximately CDN\$1.26 to US\$1.00, compared with CDN\$1.33 to US\$1.00 in the prior year comparative. The impact of this change in foreign exchange rate resulted in a decrease in consolidated revenue of \$7.9 million and Adjusted EBITDA of \$1.4 million.

The table below illustrates the Company's Adjusted EBITDA contribution by geography as reported in Canadian dollars:

For the three months ended (\$ thousands)	September 30, 2021			September 30, 2020		
	Canada	U.S.	Total	Canada	U.S.	Total
Revenue	31,104	140,649	171,753	30,923	125,930	156,853
Direct costs	18,640	106,145	124,785	17,251	83,456	100,687
Gross margin	12,464	34,504	46,968	13,672	42,474	56,166
G&A	2,567	8,646	11,213	4,177	4,864	9,041
Adjusted EBITDA	9,897	25,858	35,755	9,495	37,610	47,125

Holding the foreign exchange rate constant at the prior year's comparative quarter's rate of CDN\$1.33 to US\$1.00, revenue and Adjusted EBITDA would have been \$179.7 and \$37.2 million, respectively, for the three months ended September 30, 2021.

Consolidated RPT for the quarter was \$33,248, a 17% increase compared with \$28,347 in the prior year. RPT in the U.S. operations was US\$36,806, a 19% increase compared with US\$30,840 in the prior year. RPT in the Canadian operations was \$24,113, a 10% increase compared with \$21,995 in the prior year. The increase in consolidated RPT was due to certain regions in the U.S. reopening and recovering from the COVID-19 pandemic combined with higher utilization for emergency response work and a lower overall average number of hydrovacs being utilized in the period. Consolidated RPT of \$33,248 for the third quarter was 25% higher than consolidated RPT of \$26,633 in the second quarter of 2021, highlighting increased construction season activity levels and the gradual economic recovery from the COVID-19 pandemic. As at September 30, 2021, Badger had 1,360 hydrovacs in its fleet compared with 1,400 as at September 30, 2020.

Badger continues to focus on optimizing its fleet in response to changing economic activity driven by the continued recovery from COVID-19. The Company is uniquely positioned to respond to changes in regional customer service requirements due to its large hydrovac fleet and extensive branch network. New units and fleet retirements are closely monitored to ensure Badger is optimizing fleet utilization and shareholder capital in an accretive manner.

Direct Costs

Direct costs were \$124.8 million or 72.7% of revenue compared with \$100.7 million or 64.2% of revenue in the prior year quarter and compared with \$109.6 million or 80.8% of revenue in the second quarter of 2021. Direct costs benefitted from \$2.8 million (1.6% of revenue) in COVID-19 government assistance relating to the Canada Emergency Wage Subsidy and the Canada Emergency Rent Subsidy compared with \$1.9 million (1.2% of revenue) in the prior year.

Labour related costs increased as a percentage of revenue due to overtime as a result of operator shortages in certain areas, operator quarantine from COVID-19 infections and exposures, training costs for onboarding new operators to meet customer demand and retention costs for operators.

Badger actively manages its operator and non-operator labour related costs, balancing the need for trained operators in advance of demand. Incurring expenses ahead of revenue is inherent in the seasonal nature of Badger's business model as the operator onboarding and training process takes two to three months to complete and trained operators are needed before activity levels increase.

Costs related to fuel increased as a percentage of revenue due to higher average diesel prices. Costs relating to salaried sales and operations support staff in the branch areas increased as a percentage of revenue to support the anticipated recovery. Sales and operations support staff are critical to support operations and to drive further revenue growth.

Insurance related costs as a percentage of revenue were modestly higher than the prior year as a result of increased premiums in the general insurance market.

Bad debt expense, which is included in direct costs, was \$1.0 million, down from \$1.3 million in the prior year's comparative quarter.

Gross Profit

Gross profit was \$47.0 million resulting in a gross profit margin of 27.4% compared with \$56.2 million and 35.8% in the prior year quarter and \$26.0 million or 19.2% in a gross profit margin in the second quarter of 2021. Gross profit margin in the U.S. operations was 24.5% compared with 33.7% for the prior year quarter and 19.3% in the second quarter of 2021. Gross profit margin in the Canadian operations was 40.1% compared with 44.2% in the prior year quarter and 18.9% in the second quarter of 2021. Gross profit margins in the current year benefitted from \$2.8 million in COVID-19 related government assistance (1.6% of revenue) compared with \$1.9 million (1.2% of revenue) in the prior year. Average hydrovac customer hourly rates were comparable to the prior year across the majority of the U.S. and Canadian markets.

General and Administrative ("G&A") Expenses

G&A expense was \$11.2 million or 6.5% of revenue compared with \$9.0 million or 5.8% of revenue in the prior year. G&A expense included \$2.1 million in costs resulting from key strategic initiatives designed to enhance the Company's organizational and management structure. Excluding the impact of these costs, G&A expense would have been \$9.1 million. Included in the current year quarter is \$0.2 million in COVID-19 related government assistance compared with \$0.1 million in the prior year.

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

Depreciation and amortization expense was \$18.1 million compared with \$18.5 million in the prior year. Normalized for the changes in the weighted average foreign currency used in the translation of U.S. to Canadian dollars, depreciation expense remained consistent with the prior year comparative in local currency due to the decrease in the average number of hydrovacs offset by an increase in other capital additions.

Share-based Compensation Expense

Share-based compensation recovery was \$0.5 million compared with an expense of \$6.1 million in the prior year. The decrease in the expense was due to the decrease in the market value of Badger's common shares during the period compared with the prior year's increase in market value. 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 Derivative Instruments

The Company has entered into total return swap contracts to manage the exposure to share price market risk on its cash-settled long-term incentive plan grants. All total return swap contracts are recorded at fair value. The unrealized loss on the total return swaps was \$0.6 million compared with nil in the prior year's comparative quarter.

Gain or Loss on Sale of Property, Plant and Equipment

Gain on sale of property, plant and equipment was \$0.1 million compared with a gain of \$0.4 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 period.

Finance Cost

Finance costs, which consist primarily of interest on the Company's syndicated revolving credit facility, senior secured notes, standby fees on the syndicated revolving credit facility and finance costs associated with lease liabilities, were \$1.7 million, which was consistent with prior year of \$1.7 million.

As at September 30, 2021, the Company's debt obligations, excluding the impact of operating leases and outstanding letters of credit, consisted of \$120.3 million drawn on the Company's syndicated revolving credit facility, US\$25.0 million of senior secured notes and \$19.3 million in lease liabilities.

Income Tax

Total income tax expense was \$4.5 million compared with an expense of \$5.8 million in the prior year. Total income tax expense included \$0.4 million current income tax expense and \$4.1 deferred income tax expense. Total income tax expense in the third quarter of 2020 included current income tax expense of \$5.9 million and \$0.1 million in deferred income tax recovery. Total income tax expense was \$1.3 million lower than the prior year due to changes in taxable income.

Current income tax expense of \$0.4 million was comprised of \$1.0 million in Canadian current income tax expense (Q3 2020 – \$0.1 million recovery) and a recovery of \$0.6 million in the U.S. (Q3 2020 – \$6.0 million expense). The change in U.S. and Canadian current income taxes is due primarily to changes in underlying taxable income.

Deferred income tax expense was \$4.1 million compared with a \$0.2 million recovery in the prior year's comparative quarter. The change in deferred income tax expense is due to a greater amount of tax depreciation available to reduce current taxes payable in the third quarter 2021 than in the prior year comparative quarter.

Net Profit

Net profit was \$12.4 million compared with net profit of \$16.2 million in the prior year. Net profit was impacted by lower gross profit offset by lower share-based plan expenses and higher general and administrative expenses, 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 U.S. operations, resulted in other comprehensive income of \$6.5 million compared with other comprehensive loss of \$6.6 million in the prior year. The change in OCI is the result of the U.S. dollar weakening relative to the Canadian dollar throughout the period. OCI does not impact Badger's cash flow from operations or Adjusted EBITDA.

Liquidity and Dividends

Cash flow from operating activities was \$1.9 million compared with \$31.7 million in the prior year's comparative quarter. Cash flow from operating activities was impacted by lower Adjusted EBITDA and an increase in current trade receivables. See the Interim Condensed Consolidated Statement of Cash Flows within Badger's unaudited Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2021, for additional details. Cash flow from operating activities before non-cash working capital and other adjustments was \$35.8 million, \$11.2 million lower than the prior year's comparative quarter of \$47.0 million. The decrease in cash flow from operating activities before non-cash working capital and other adjustments was due primarily to lower Adjusted EBITDA offset by lower share-based plan expenses.

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 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 was \$66.5 million as at September 30, 2021, compared with \$70.5 million as at December 31, 2020. The change in working capital as at September 30, 2021 resulted from an increase in trade and other payables and income tax receivable offset by a decrease in cash and an increase in trade and other receivables. As at November 4, 2021, 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 \$159.0 million as at September 30, 2021, \$10.9 million higher than the balance as at December 31, 2020, of \$148.1 million. The increase in trade receivables and other receivables is due to seasonally higher activity levels experienced in the third quarter. Included in total trade and other receivables at September 30, 2021, was \$6.3 million in accrued revenue compared with \$3.1 million at December 31, 2020. Accrued revenue at September 30, 2021 relates to services performed prior to September 30, 2021; accrued revenue is recognized when it meets the requirements of Badger's revenue recognition policy.

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

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 \$14.8 million in total capital expenditures during the quarter, compared with \$16.1 million in the prior year's comparative quarter. Capital expenditures during the quarter were primarily related to the production of hydrovacs and other vehicles and trailers.

In 2021, Badger expects to manufacture between 25 to 35 hydrovacs, while continuing to manufacture and purchase specialty units and retire 60 to 70 units. Badger continues to focus on optimizing its current 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.

For the third quarter of 2021, Badger completed 4 hydrovacs, compared with 11 hydrovacs in the third quarter of 2020.

Capital Expenditures

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Hydrovac completed units and work-in-progress ⁽¹⁾⁽²⁾	9,660	7,484	12,853	32,953
Other vehicles and trailers	4,927	6,197	21,273	6,652
Buildings ⁽³⁾	63	1,387	3,505	2,572
Other	128	887	358	952
Total expenditures of property, plant and equipment	14,778	15,955	37,989	43,129
Upfront payments for right-of-use assets ⁽⁴⁾	2	180	41	916
Total capital expenditures	14,780	16,135	38,030	44,045

⁽¹⁾ Total work-in-progress ("WIP"), including chassis and WIP on other vehicles, recognized on Badger's balance sheet as at September 30, 2021, and 2020, was \$13.4 million and \$16.9 million, respectively. The net change in WIP for hydrovacs for the three months ended September 30, 2021, was a net outflow of \$6.1 million and for the three months ended September 30, 2020, was a net outflow of \$0.7 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⁾ Additions to buildings includes Badger's U.S. administrative center in Brownsburg, Indiana.

⁽⁴⁾ Upfront payments for right-of-use assets relate to the Company's leasing of light-duty trucks.

The cost to build a hydrovac will fluctuate on an annual basis due to factors such as: the number of hydrovac units built; the cost of chassis; labour and materials; and the impact of foreign currency rates as certain materials are denominated or otherwise influenced by foreign currency exchange rates.

Financing

Syndicated Revolving Credit Facility

At the end of the third quarter, the Company had a \$300.0 million syndicated revolving credit facility with a syndicate of five lenders, which has since been extended (see “Syndicated Revolving Credit Facility Renewal” below). 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 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. 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 syndicated revolving 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, 2021, the Company had \$120.3 million outstanding on its syndicated revolving credit facility (December 31, 2020 – \$68.8 million) and had issued letters of credit of \$5.1 million (December 31, 2020 – \$4.7 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 4, 2021, 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 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, 2021, the Company had no amounts outstanding on its supplemental credit facility. As at September 30, 2021, the Company has approximately \$3.3 million of cash and cash equivalents and has access to approximately \$274.6 million of borrowing capacity under its committed credit facilities in respect of which all conditions precedent had been met.

Syndicated Revolving Credit Facility Renewal

Subsequent to September 30, 2021, the Company renewed its syndicated revolving credit facility for a five-year term, expiring on October 7, 2026. The supplemental \$100.0 million credit facility was incorporated into the syndicated revolving credit facility for a total of \$400.0 million with a syndicate of six lenders. Key conditions of the facility, including financial covenants and pricing, are consistent with the Company's previous syndicated revolving credit facility as described above.

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\$25.0 million (\$31.5 million Canadian equivalent as at September 30, 2021) and an interest rate of 4.83% per annum and mature on January 24, 2022. Repayments of US\$25.0 million, as required under the terms of the notes, were completed on January 24, 2020 and on January 24, 2021 utilizing the Company's syndicated revolving credit facility and cash on hand. The remaining amortizing principal repayment of US\$25.0 million is due under the notes on 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, 2021, the Company had \$19.3 million in lease liabilities (December 31, 2020 – \$15.2 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, 2021	December 31, 2020	Threshold
Total Debt to Compliance EBITDA Credit Facility	2.5:1	1.2:1	4.00:1 max
Total Debt to Compliance EBITDA Senior Secured Notes	2.4:1	1.2:1	2.75:1 max
Interest Coverage Ratio Credit Facility	12.0:1	14.1:1	3.00:1 min
Interest Coverage Ratio Senior Secured Notes	12.6:1	14.0:1	3.00:1 min
Tangible Net Worth	\$243.2 million	\$277.4 million	\$203.8 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, 2021, calculated as \$173.0 million in Total Debt divided by \$69.4 million of Compliance EBITDA and for December 31, 2020, calculated as \$135.1 million in Total Debt divided by \$117.3 million of Compliance EBITDA.
- (3) Total Debt to Compliance EBITDA senior secured notes as at September 30, 2021, calculated as \$173.0 million in Total Debt divided by \$73.0 million of Compliance EBITDA and for December 31, 2020, calculated as \$142.4 million in Funded Debt divided by \$116.0 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, 2021, calculated as \$69.4 million in Compliance EBITDA divided by \$5.8 million in interest expense and for the twelve months ended December 31, 2020, calculated as \$117.3 million in Compliance EBITDA divided by \$8.3 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, 2021, calculated as \$73.0 million in Compliance EBITDA divided by \$5.8 million in interest expense and for the twelve months ended December 31, 2020, calculated as \$116.0 million in Compliance EBITDA divided by \$8.3 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, 2021, the Company was in compliance with all covenants.

Off-Balance Sheet Arrangements

As at September 30, 2021, and December 31, 2020, the Company did not have any material off-balance sheet arrangements.

Share Capital

As at September 30, 2021, the number of common shares outstanding was 34,473,438 (December 31, 2020 – 34,853,838). The weighted average common shares outstanding for the three months ended September 30, 2021 was 34,537,761 (December 31, 2020 – 34,870,893).

As at November 4, 2021, the number of common shares outstanding was 34,473,438. 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 and nine months ended September 30, 2021, and "Normal Course Issuer Bid" for additional details on changes to share capital.

Normal Course Issuer Bid

On March 11, 2021, the Board of Directors approved the Company to pursue the implementation of a normal course issuer bid (“NCIB”), pursuant to which Badger would have an option to repurchase its common shares for cancellation and on March 22, 2021, the Toronto Stock Exchange (“TSX”) accepted the notice filed by the Company to implement the NCIB program. Under the NCIB, the Company may acquire up to 1,500,000 common shares during the period commencing on March 24, 2021, and ending on March 23, 2022, or such earlier date on which the Company completes its purchases of common shares under the NCIB, or terminates the NCIB at its option.

The Company continues to focus on prudent capital allocation to drive long-term shareholder value and believes that from time-to-time, the market price of its common shares may not fully reflect the underlying value of its business. Purchases of common shares for cancellation under the NCIB may provide an opportunity to enhance long-term total shareholder return.

During the three months ended September 30, 2021, under its NCIB program, the Company purchased and cancelled 223,900 common shares at a weighted average price per share of \$34.40. No purchases were made during the period beginning October 1, 2021, through November 4, 2021. On a cumulative basis, since March 24, 2021 to the period ended September 30, 2021, the Company has purchased and cancelled 380,400 common shares at a weighted average price per share of \$36.04 under the NCIB.

Badger’s previous NCIB expired on May 20, 2020 (the “Previous NCIB”). Under the Previous NCIB, Badger obtained the approval of the TSX to purchase up to 2,000,000 common shares, which represented 5.61% of the public float at the time of approval. Badger purchased on the open market and cancelled an aggregate of 1,025,600 common shares under the Previous NCIB at a volume-weighted average purchase price of \$41.40 per common share.

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.

Response to COVID-19

In March 2020, the World Health Organization declared a global pandemic due to COVID-19. In response to the COVID-19 pandemic, Badger established a COVID-19 task force, responsible for overseeing, supporting and directing the Company's business continuity actions amidst the outbreak of the virus. The Company's response to COVID-19 reflects its focus on health and safety for employees and customers. Throughout the pandemic and in the first three quarters of 2021, as Badger provides essential services to North America's critical infrastructure, the Company continued to provide customers with safe and reliable non-destructive excavation services.

In response to the pandemic, on May 7, 2020, the Company entered into a one year supplemental \$100.0 million credit facility available for general corporate purposes, providing additional liquidity and financial flexibility should it be required. Throughout 2020 and as at September 30, 2021, there were no amounts drawn on the supplemental credit facility and the Company remained well within all financial covenants associated with all lending arrangements. On May 4, 2021 the Company renewed its supplemental \$100.0 million credit facility for an additional year. Subsequent to September 30, 2021, the Company renewed its syndicated revolving credit facility for a five-year term, expiring on October 7, 2026. See "Syndicated Revolving Credit Facility Renewal" for details.

In the third quarter Badger's operations benefitted compared to previous quarters from the economic reopening and continued recovery from COVID-19 in certain markets across North America as well as from typical summer construction activity. The Company is complying with customer vaccine mandates on its worksites and will continue to promote the health and safety of its employees and customers. It is monitoring potential government vaccine mandates and the impact that new government regulations may have on operations.

In anticipation of continued economic and market recovery from COVID-19, Badger continues to be focused on its organizational design, management capabilities and key strategic initiatives. See "Business Outlook and Strategic Milestones" for additional details on the Company's long-term growth potential for non-destructive excavation services in North America.

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, derivative instruments 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 Interim Condensed Consolidated Financial Statements.

Credit Risk

Credit risk arises where a financial loss would be experienced if a counterparty to a financial asset failed to meet its contractual obligations. The Company's credit risk exposure is primarily through its trade receivables which are subject to industry credit risks. Credit risks are mitigated by the Company's large and diversified customer base across the utility, petroleum and construction industries. The Company actively monitors the financial strength of its customer base through its credit process to minimize the risk of default on receivables. The Company has a due diligence process to approve credit for new and existing customers by assessing the creditworthiness of each customer. Before work is performed for the customer, its creditworthiness is assessed and a credit rating and maximum credit limit are assigned. The Company has an agreement with Export Development Canada ("EDC"), a Government of Canada Crown Corporation, to insure its trade receivables portfolio which further mitigates the Company's credit risk exposure.

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. Due to COVID-19, the Company entered into a one year supplemental \$100.0 million credit facility available for general corporate purposes, providing additional liquidity and financial flexibility should it be required. Throughout the first three quarters of 2021 and as at September 30, 2021, there were no amounts drawn on the supplemental credit facility and the Company remained well within all financial covenants associated with all lending arrangements. On May 4, 2021, the Company renewed its supplemental \$100 million credit facility for an additional year.

Market Risk

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

Equity Price Risk

The Company is exposed to volatility in earnings as a result of volatility in the Company's share price. The Company has equity price risk exposures to shares it issues under its long-term incentive plans, which affect earnings when outstanding units are revalued at the end of each reporting period. The Company uses derivative instruments to manage volatility derived from its share-based compensation plans. The Company does not apply hedge accounting and recognizes gains and losses associated with the derivative instruments in net profit.

Interest Rate Risk

The Company is exposed to interest rate risk in relation to interest expense on a portion of its long-term debt whose rate is floating. Interest is calculated based on prime lending rates, BA rates or the LIBOR and is dependent on the nature of the borrowing. Interest rates are subject to change. As at September 30, 2021 the Company had \$120.3 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\$25.0 million outstanding as at September 30, 2021) 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 U.S. dollars. The United States subsidiaries are subject to translation gains and losses on consolidation. The Company's Canadian operations purchase certain products in U.S. 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 U.S. dollar denominated debt, with US\$25.0 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)	2021			2020				2019
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenue ⁽¹⁾	171,753	135,592	108,468	130,612	156,853	134,484	136,678	162,715
Canada	31,104	24,902	20,657	26,297	30,923	25,054	30,456	35,241
U.S. (U.S. dollar)	111,555	90,124	69,410	79,904	94,592	79,074	78,970	96,564
Net profit (loss)	12,407	(2,818)	(14,936)	1,827	16,153	1,701	5,068	15,913
Net profit (loss) per share, basic and diluted (\$)	\$0.36	(\$0.08)	(\$0.43)	\$0.05	\$0.46	\$0.05	\$0.15	\$0.45
Dividends paid	5,446	5,489	5,226	5,229	5,229	5,229	4,972	5,001
Dividends per share, basic and diluted (\$)	\$0.157	\$0.157	\$0.153	\$0.150	\$0.150	\$0.150	\$0.145	\$0.140

⁽¹⁾ Refer to Note 16 – Segment reporting in the Company’s Interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2021 for select information by geographic segments.

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;
- Reduced customer activity levels beginning in March 2020 as a result of COVID-19, resulting in the curtailment of the production of hydrovacs at Badger’s Red Deer manufacturing facility in the second quarter of 2020;
- The impact of the COVID-19 pandemic on both the U.S. and Canadian operations, which resulted in a broad-based slowdown of the North American economy. Revenue and underlying customer activity levels varied by region, largely due to the variability in the impact of COVID-19 on economic and construction activity levels;
- The impact of a number of regions being in the early stages of recovery from the COVID-19 pandemic in the first half of 2021;
- 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 impact of the fluctuation of the foreign exchange rate to translate the U.S. dollar to Canadian dollars; and
- The execution and implementation of Badger’s Common Business Platform/Enterprise Resource Planning project.

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

<i>(\$ thousands, except for RPT and average hydrovacs)</i>	Three months ended September 30,	
	2021	2020
Total revenue	140,649	125,930
Less: Other revenue	4,081	2,265
Hydrovac revenue	136,568	123,665
Foreign exchange rate ⁽¹⁾	1,2608	1.3313
Hydrovac revenue - U.S. equivalent	108,319	92,890
Average hydrovacs ⁽²⁾	981	1,004
RPT (U.S. dollars) ⁽³⁾	36,806	30,840

Revenue per truck per month – Canada

<i>(\$ thousands, except for RPT and average hydrovacs)</i>	Three months ended September 30,	
	2021	2020
Total revenue	31,104	30,923
Less: Other revenue	3,470	4,925
Hydrovac revenue	27,634	25,998
Average hydrovacs ⁽²⁾	382	394
RPT ⁽³⁾	24,113	21,995

Revenue per truck per month – Consolidated (mixed currency)

<i>(\$ thousands, except for RPT and average hydrovacs)</i>	Three months ended September 30,	
	2021	2020
Hydrovac revenue - U.S.	108,319	92,890
Hydrovac revenue - Canada	27,634	25,998
Total hydrovac revenue	135,953	118,888
Average hydrovacs ⁽²⁾	1,363	1,398
RPT ⁽³⁾	33,248	28,347

⁽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⁾ RPT 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

	2021			2020				2019	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Canada	377	387	397	398	399	390	382	380	
U.S.	982	979	982	993	999	1,008	1,017	981	
	1,359	1,366	1,379	1,391	1,398	1,398	1,399	1,361	
Hydrovac operator training center ⁽¹⁾	1	1	1	1	2	3	3	3	
Total	1,360	1,367	1,380	1,392	1,400	1,401	1,402	1,364	

⁽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⁾

	2021				2020				2019	
	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4
Canada	382	392	398	389	399	394	386	381	367	376
U.S.	981	981	988	987	996	1,004	1,013	999	924	965
Total	1,363	1,373	1,386	1,376	1,395	1,398	1,399	1,380	1,291	1,341

⁽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	2021			2020				2019	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Canada	15	15	15	15	15	15	15 ⁽¹⁾	14	
U.S.	2	2	2	2	2	2	2 ⁽²⁾	3	

⁽¹⁾ A new Canadian based operating partner agreement was executed during the first quarter of 2020.

⁽²⁾ A U.S. based franchise agreement was terminated in the first quarter of 2020.

Foreign Exchange Rates

1 USD:CAD	2021			2020				2019		
	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4
Period weighted average ⁽¹⁾	1.2608	1.2282	1.2651	1.3408	1.3055	1.3313	1.3839	1.3451	1.3267	1.3201
Period end	1.2741	1.2394	1.2575	1.2732	1.2732	1.3339	1.3628	1.4187	1.2988	1.2988

⁽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 derivative instruments, 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 and gains and losses on derivative instruments 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	2021	2020	2021	2020
Net profit (loss)	12,407	16,153	(5,347)	22,922
Add:				
Depreciation and amortization	18,052	18,452	53,611	55,484
Share-based compensation (recovery) expense	(461)	6,122	3,046	6,551
(Gain) loss on sale and impairment of property, plant and equipment	(87)	(416)	349	1,302
Unrealized loss on derivative instruments	614	-	614	-
Finance cost	1,664	1,703	4,168	6,665
Foreign exchange gain	(962)	(646)	(229)	(190)
Income tax recovery expense (recovery)	4,528	5,757	(558)	8,089
Adjusted EBITDA	35,755	47,125	55,654	100,823

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
Adjusted EBITDA	2021	2020	2021	2020
Revenue	171,753	156,853	415,813	428,015
Less:				
Direct costs	124,785	100,687	325,831	295,138
General and administrative expense	11,213	9,041	34,328	32,054
Adjusted EBITDA	35,755	47,125	55,654	100,823

“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	2021	2020	2021	2020
Adjusted EBITDA	35,755	47,125	55,654	100,823
Revenue	171,753	156,853	415,813	428,015
Adjusted EBITDA margin	20.8%	30.0%	13.4%	23.6%

“Normalized net profit” is net profit adjusted for share-based compensation, gains and losses on derivative instruments, gains and losses on sale 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 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	2021	2020	2021	2020
Net profit (loss)	12,407	16,153	(5,347)	22,922
Add:				
Share-based compensation (recovery) expense	(461)	6,122	3,046	6,551
(Gain) loss on sale and impairment of property, plant and equipment	(87)	(416)	349	1,302
Unrealized loss on derivative instruments	614	-	614	-
Foreign exchange (gain) loss	(962)	(646)	(229)	(190)
Business restructuring	-	-	-	4,616
Government assistance benefits	(3,037)	(2,032)	(3,037)	(7,237)
Normalized net profit (loss) before tax effect of normalizing adjustments	8,474	19,181	(4,604)	27,964
Income tax (recovery) expense relating to normalizing adjustments	(971)	799	70	1,315
Normalized net profit (loss)	9,445	18,382	(4,674)	26,649
Normalized net profit (loss) per share, basic and diluted⁽¹⁾	\$0.27	\$0.53	(\$0.13)	\$0.76

⁽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, 2021 of 34,357,761 (September 30, 2020 – 34,853,838) and for the nine months ended September 30, 2021 of 34,643,561 (September 30, 2020 – 34,873,262).

“**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	2021	2020
Net (loss) profit	(3,520)	38,835
Add:		
Depreciation and amortization, including non-cash impairments	70,919	74,497
Finance cost	5,840	8,700
Income tax (recovery) expense	(253)	9,990
Compliance EBITDA – for purposes of senior secured notes	72,986	132,022
Add:		
Foreign currency revaluations	(2,370)	(1,267)
Loss on sale of property, plant and equipment	846	45
Share-based payments and unrealized loss on derivative instruments	(2,090)	726
Compliance EBITDA – for purposes of credit facilities ⁽¹⁾	69,372	131,526

(1) The calculation of Compliance EBITDA related to the Company’s credit facilities for the twelve months ended September 30, 2021, 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, 2021	December 31, 2020
Total Debt		
Long-term debt	-	31,830
Current portion of long-term debt	31,543	31,830
Borrowings under credit facility	120,325	68,820
Lease liability	12,387	9,798
Current portion of lease liability	6,920	5,412
Total obligations	171,175	147,690
Add: issued letters of credit	5,072	4,750
Less: cash on hand up to \$10.0 million ⁽¹⁾	(3,283)	(10,000)
Total Debt – for purposes of senior secured notes	172,964	142,440
Less: cash on hand greater than \$10.0 million up to \$50.0 million	-	(7,295)
Total Debt – for purposes of credit facilities ⁽²⁾	172,964	135,145

(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, 2021, 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, 2021	December 31, 2020
Tangible Net Worth		
Shareholders equity	293,830	328,519
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	(19,467)	(18,880)
Less: intangible assets and goodwill	(31,185)	(32,289)
Tangible Net Worth	243,178	277,350

Critical Accounting Policies and Estimates

The Company’s significant accounting policies are set out in Note 4 of the 2020 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, 2020. 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 2020 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 unaudited Interim Condensed Consolidated Financial Statements are prepared. Actual results could differ from these estimates. The most significant estimates and judgments used in the preparation of the Company’s unaudited Interim Condensed Consolidated Financial Statements have been set out in Note 3 of the Company’s 2020 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 Senior 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 Senior 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 2021.

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.

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”, “continues to”, “target”, “focus on” 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 change to Badger's presentation currency from Canadian to U.S. dollars in 2022;
- The anticipated benefit of the continual business review of all aspects of Badger’s operations;
- Badger’s focus on cost management and operational efficiencies and its impact on growth and on maximizing shareholder value;
- Badger’s expectation to continue to optimize asset utilization;
- Badger’s expectations with respect to hydrovac and specialty unit production and retirement in 2021;
- Anticipated economic recovery from the COVID-19 pandemic in 2021 and its impact on Badger and its operations, including in connection with seasonal construction volume increases and regulations related to COVID-19;
- The expectation of future market opportunities for Badger with respect to infrastructure strengthening;
- Disclosure under the heading “Business Outlook and Strategic Milestones”;
- The expectation that the execution of the EDC credit insurance policy will improve Badger’s credit risk exposure;
- The timing and impact on the business, if any, of the implementation and management of supplemental credit and collections processes;
- 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 non-destructive excavation market;
- Badger does not anticipate any limitations in its ability to access liquidity under its various credit facilities;
- The benefits, if any, that Badger’s operational scale creates related to financial and operating performance;
- Badger’s anticipated use of its cash, cash equivalents and financial capacity available under its credit facilities;
- The estimated improvement in forecasted construction put-in-place spending; and
- Badger’s ability to repurchase common shares under the NCIB and expectations with respect to the enhancement of long-term total shareholder return.

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 monitoring of potential impacts of COVID-19 on all aspects of Badger's business, including the impact on the demand for Badger's services and 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;
- 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 COVID-19, will have the intended effects;
- The overall market for Badger's services or its ability to provide service 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 or regulatory changes and technological advances;
- There will be long-term sustained customer demand for non-destructive excavation 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.

Risks 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; the availability of future debt and equity financing; changes in laws or regulations, including taxation and environmental regulations as well as COVID-19 related regulations (e.g. vaccination mandates) which may adversely impact the labour supply and operating costs of Badger; extreme or unsettled weather patterns; and fluctuations in foreign exchange or interest rates. The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "Risk Factors" in the Company's 2020 Annual Information Form, which is available on SEDAR at www.sedar.com.

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.