



Management's Discussion and Analysis

FOR THE THREE MONTHS ENDED MARCH 31, 2022

May 12, 2022

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 months ended March 31, 2022 and 2021. This MD&A is a review of the financial results of Badger and has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") for the quarter ended March 31, 2022. 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, 2021, which may be found on SEDAR at www.sedar.com.

This MD&A is dated and has been prepared taking into consideration information available to May 12, 2022. All references to "dollars" and "\$" are to the currency of U.S. dollars unless otherwise indicated. Effective January 1, 2022, Badger began 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 was implemented prospectively, with comparative financial information previously expressed in Canadian dollars having been restated to be expressed in U.S. dollars, beginning the three months ended March 31, 2022.

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 and related 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 primary advantage of our non-destructive solutions is to mitigate the risk of potential line strikes resulting in business and service interruptions to critical infrastructure owners, operators and stewards.

The Company's key technology is the Badger HydrovacTM, which is used primarily for safe excavation around critical infrastructure and in congested underground conditions. The Badger Hydrovac uses a pressurized water stream to liquify the soil cover, which is then removed with a powerful vacuum system and deposited into a storage tank. To complement the Badger Hydrovac, the Company began field-testing prototype air excavation units, Badger AirvacTM Pending, in late 2021. The Airvac is used like a Badger Hydrovac for safe excavation. The Airvac utilizes compressed air versus water to loosen the cover soil before vacuuming and depositing into a storage tank.

The Badger Airvac complements the Badger Hydrovac and both are designed and manufactured by Badger. Badger's vertical integration increases the certainty of non-destructive excavation unit supply to support the Company's growth and retirement replacement requirements at a cost less than purchasing from third party manufacturers. The vertical integration also allows Badger the opportunity to incorporate feedback from its non-destructive excavation unit operators and customers into its design and manufacturing processes, and reduces fleet downtime for repairs due to integrated repair part availability.

Quarterly Operational Highlights

Badger's confidence in the post COVID-19 pandemic recovery grew as the first quarter progressed. The Company had a strong second half of the quarter, partially offset by the operator quarantines due to Omicron variant in the first half of the quarter. Increased and more consistent volume levels supported improved operating leverage. Overall, the first quarter was in line with our expectations.

Revenue continued to trend positively as the quarter progressed, resulting in a year-over-year revenue growth of approximately 33%. All operating regions experienced improving revenue trends as the quarter progressed, with marked improvements in the second half of the quarter over the first half. The improving year-over-year revenue trend continues, on a seasonally adjusted basis, early in the second quarter.

The Company's cost control initiatives completed in late 2021 coupled with the improving revenue trends over the quarter resulted in Adjusted EBITDA⁽¹⁾ margins increasing 430 bps to 9.4% versus 5.1% achieved in 2021. The first quarter is typically the seasonally adjusted low for Badger. All operating regions experienced better operating leverage as the quarter progressed resulting from cost control initiatives, increased pricing, higher fuel recovery and positive utilization trends. The Company's continued focus on cost controls supported by improving revenue trends positively positions Badger for continued margin improvements as the spring and summer construction season ramps-up.

⁽¹⁾ "Adjusted EBITDA margin" is not a standardized financial measure prescribed by IFRS and may not be comparable to similar measures presented by other companies or entities. See "Non-IFRS Financial Measures" for additional detail on the definition and calculation of Adjusted EBITDA margin.

Badger has successfully completed key strategic initiatives during the quarter:

- Operations were restructured into four regions: Canada, Eastern U.S., Central U.S. and Western U.S. The Company also established a national sales group and aligned its existing field sales group with the restructured regions. These changes support the roll out of Badger's commercial strategy and align with the customer and market growth opportunities nationally and within each region.
- Completed the realignment of its previously disclosed legal restructuring to maximize the value created by its vertically integrated business model. The legal entity reorganization aligns with Badger's operating model, which focuses each functional group on their respective service delivery responsibilities – Operations, Fleet Management and Manufacturing – as well as providing enhancements to the Company's fleet mobility, manufacturing efficiencies and tax management.
- Went live with its Material Resource Planning ("MRP") system for the manufacturing operations. The MRP system automates most of the Company's manufacturing planning activities – demand planning, bill of materials, procurement, scheduling and parts catalogues – which supports production and supply chain efficiencies and further scaling of Badger's manufacturing capacity.
- Leased approximately 43,000 square feet of manufacturing space on seven acres adjacent to Badger's current Red Deer plant. This additional space will replace several remote shop locations and will allow the Company to improve efficiencies and further increase its annual manufacturing capacity beyond the current 350 units per year capacity. Badger's manufacturing program is intended to satisfy growth of units as well as replacement of planned retirements.

The Company continues to invest in its capabilities and key strategic initiatives to position the Company to capture the long-term growth opportunity in the North American market for non-destructive excavation and related services.

Business Outlook

Market activity and customer demand improved as the first quarter progressed. The Company had a strong second half of the quarter, partially offset by the operator quarantines due to Omicron variant in the first half of the quarter. Badger was encouraged by market and operating improvements during the quarter and by market indications of improving business activity for the remainder of the year. Badger is also seeing improved macro-economic conditions across the broader non-residential construction activity in the U.S. and in previously weak sectors such as oil and gas.

Badger experienced improving operating leverage as the first quarter progressed and anticipates that operating leverage will further improve as business activity levels increase and become more consistent. The Company is focused on returning towards historical revenue growth and margin levels by managing pricing and controlling costs, including management of operating labour and fuel price increases. The 2022 focus on managing margin will be supported by continued advancement of the Company's commercial strategy and operating model.

Badger's investment in hiring and training operators and support staff in advance of the anticipated volume continues to position the Company well to capture the improvements in construction activity, especially during the summer construction season. The Company has also strengthened its sales and marketing organization and realigned its operations network for better market and operating focus.

Badger continues to be encouraged by the need for near and long-term reinvestment in North America's critical infrastructure, including the addition of new sustainable energy technology; and Badger is well positioned to capture the material growth opportunity for non-destructive excavation across North America.

Financial Highlights

(\$ thousands, except revenue per truck per month ("RPT"), per share and share information) (\$ US thousands, except per share amounts)	Three months ended March 31,	
	2022	2021
Revenue:		
Non-destructive excavation service revenue	109,391	80,851
Other revenue	4,756	4,863
Total revenue	114,147	85,714
RPT - Consolidated (mixed currency) ⁽¹⁾	31,571	23,008
RPT - U.S. (U.S. dollars) ⁽¹⁾	31,515	23,060
RPT - Canada (Canadian dollars) ⁽¹⁾	31,712	22,880
Adjusted EBITDA ⁽¹⁾	10,682	4,364
Adjusted EBITDA per share, basic and diluted ⁽¹⁾⁽²⁾	\$ 0.31	\$ 0.13
Adjusted EBITDA margin ⁽¹⁾	9.4%	5.1%
Loss before income tax	(6,704)	(15,395)
Net loss	(5,265)	(11,744)
Net loss per share, basic and diluted ⁽²⁾	\$ (0.15)	\$ (0.34)
Cash flow from operating activities before working capital and other adjustments	10,463	4,127
Cash flow from operating activities before working capital and other adjustments per share, basic and diluted ⁽²⁾	\$ 0.30	\$ 0.12
Dividends paid ⁽³⁾	1,429	4,192
Weighted average common shares outstanding ⁽²⁾	34,473,438	34,853,838

⁽¹⁾ "Adjusted EBITDA" and "Adjusted EBITDA margin" are not standardized financial measures prescribed by IFRS and may not be comparable to similar measures presented by other companies or entities. See "Non-IFRS Financial Measures" for additional detail on the definition and calculation of Adjusted EBITDA and Adjusted EBITDA margin. See "Key Financial Metrics and Other Operational Metrics" for additional details on RPT. Per share, basic and diluted measures calculated by dividing the financial measure with the weighted average common shares outstanding for the period. RPT reflects the updated calculation methodology and the comparative year's RPT has been restated to reflect the updated methodology.

⁽²⁾ See "Share Capital" for additional details.

⁽³⁾ The frequency of dividend payments was changed from monthly to quarterly effective with the March 2022 dividend payment. For year over year comparison purposes, the 2022 dividends payable amount is \$4.6 million as at March 31, 2022.

Quarter Highlights

For the three months ended March 31, 2022:

- Revenue was \$114.1 million or approximately 133.1% of the revenue realized in the first quarter of 2021.
- RPT improved to \$31,571 compared with \$23,008 realized in the first quarter of 2021.
- Gross profit margin improved to 18.3% compared with 15.7% in the first quarter of 2021.
- G&A was \$10.3 million or 9.0% of revenue compared with \$9.1 million or 10.6% in the first quarter of 2021.
- Adjusted EBITDA margin increased to 9.4% compared with 5.1% in the first quarter of 2021.
- Net loss was \$5.3 million compared with net loss of \$11.7 million in the first quarter of 2021.
- Cash flow from operating activities before working capital and other adjustments of \$10.5 million compared with \$4.1 million in the first quarter of 2021.

2022 Adjusted EBITDA Summary

Consolidated Adjusted EBITDA (see Non-IFRS Financial Measures) for the three months ended March 31, 2022 was \$10.7 million compared with \$4.4 million during the same period in 2021.

The breakdown of Adjusted EBITDA by the Company's geographic segments is as follows:

(\$ US thousands)	2022			2021		
	U.S.	Canada	Consolidated	U.S.	Canada	Consolidated
Non-destructive excavation revenue	90,186	19,205	109,391	66,827	14,024	80,851
Other services revenue	2,493	2,263	4,756	2,568	2,295	4,863
Total revenue	92,679	21,468	114,147	69,395	16,319	85,714
Direct costs	76,077	17,113	93,190	58,263	14,013	72,276
Gross profit	16,602	4,355	20,957	11,132	2,306	13,438
Gross profit margin (%)	17.9%	20.3%	18.4%	16.0%	14.1%	15.7%
G&A	9,354	921	10,275	7,049	2,025	9,074
Adjusted EBITDA	7,248	3,434	10,682	4,083	281	4,364
Adjusted EBITDA margin (%)	7.8%	16.0%	9.4%	5.9%	1.7%	5.1%

Non-destructive excavation revenue

Consolidated non-destructive excavation revenue was \$109.4 million, \$28.5 million or 35.3% higher than the \$80.9 million in non-destructive excavation revenue generated during the prior year's comparative quarter.

Non-destructive excavation revenue in the U.S. operations was \$90.2 million, 35.0% higher than the \$66.8 million revenue generated in the prior year.

Non-destructive excavation revenue in the Canadian operations was \$19.2 million, \$5.2 million higher than the \$14.0 million generated in the prior year's comparative quarter.

Other services revenue

Other services revenue stayed consistent with prior year's comparative quarter.

Revenue per truck per month

	2022	2021
Consolidated RPT (mixed currency)	31,571	23,008
U.S. operations (USD)	31,515	23,060
Canadian operations (CAD)	31,712	22,880

Effective January 1, 2022 and aligning with the new legal structure, Badger has revised the methodology in which it calculates RPT:

- Raw materials, work in progress and finished non-destructive excavation units held for sale in the normal course of operations are presented in inventory in the manufacturing legal entity will be identified as inventory on the balance sheet. The finished non-destructive excavation units are transferred to the fleet legal entities in a timely manner after completion and placed into service across Badger's branch network. Any finished non-destructive excavation units that remain in the possession of the manufacturing entity during the applicable reporting period will be counted as inventory and excluded from the RPT calculation. Non-destructive excavation units held in the fleet legal entity will continue to be included in RPT calculations for the applicable reporting period.
- RPT for Badger's operating partners and franchisees previously reflected the net revenue recognized by the Company versus the gross revenue that a non-destructive excavation unit would generate. Badger's operating partner and franchisee agreements prescribe a revenue sharing split between Badger and the operating partners/franchisee, and Badger has historically and will continue to report net operating revenue as part of non-destructive excavation revenue on its financial statements. To apply a consistent utilization metric across all parts of Badger's business, the RPT for Badger's operating partners will now reflect the gross revenue generated on each

non-destructive excavation unit. The change in RPT calculation primarily impacts the Canadian segment as Canada has a proportionately higher share of revenue from operating partners. The non-destructive excavation revenue determination for disclosure purposes in consolidated statement of comprehensive income will not change as part of the change to the RPT calculation. All comparative periods have been restated to reflect these changes.

Consolidated RPT for the quarter was \$31,571, compared with \$23,008 in the prior year's comparative quarter. The increase in consolidated RPT was due to certain regions in the U.S. reopening and recovering from the COVID-19 pandemic.

U.S. operations RPT was \$31,515, a 36.7% increase compared with \$23,060 in the prior year. Canadian operations RPT was \$31,712, a 38.6% increase compared with \$22,880 in the prior year. As at March 31, 2022, Badger had 1,335 non-destructive excavation units in its fleet compared with 1,379 as at March 31, 2021.

Direct Costs

Direct costs were \$93.2 or 81.6% of revenue compared with \$72.3 million or 84.3% of revenue in the prior year.

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

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.

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.

Overall, these cost increases were offset by higher volume and revenue experienced in the quarter resulting in improved operating leverage.

Gross Profit

Gross profit was \$21.0 million resulting in a gross profit margin of 18.4% compared with \$13.4 million and 15.7% in the prior year.

General and Administrative (“G&A”) Expenses

G&A expense was \$10.3 million or 9.0% of revenue compared with \$9.1 million or 10.6% of revenue in the prior year. The year over year cost increase was primarily related to expenses to complete the legal entity reorganization and support the implementation of the Material Resource Planning system.

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

Depreciation and amortization expense was \$14.3 million compared with \$14.1 million in the prior year.

Share-based Compensation Expense

Share-based compensation expense was \$0.7 million compared with \$4.2 million in the prior year. The decrease in the expense was due to the lower market value of Badger's common shares during the period compared with the prior year's 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.

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 programs. All total return swap contracts are recorded at fair value. The unrealized loss on the total return swaps was \$0.4 million compared with nil in the prior year.

Finance Cost

Finance costs, which consist primarily of interest on the Company's syndicated revolving credit facility, standby fees on the syndicated revolving credit facility and finance costs associated with lease liabilities, were \$1.2 million, \$0.2 million higher than the prior year of \$1.0 million.

As at March 31, 2022, the Company's debt obligations, excluding the impact of operating leases and outstanding letters of credit, consisted of \$120.9 million drawn on the Company's syndicated revolving credit facility, and \$14.7 million in lease liabilities.

Income Tax

	2022	2021
Total income tax recovery	(1,439)	(3,651)
Current income tax expense (recovery)	996	(1,133)
Deferred income tax recovery	(2,435)	(2,518)

Current income tax expense of \$1.0 million was comprised of \$0.4 million in Canadian current income tax expense (2021 – \$1.1 million recovery) and an expense of \$0.7 million in the U.S. (2021 – nil). The change in U.S. and Canadian current income taxes is due primarily to changes in underlying taxable income.

Deferred income tax recovery was \$2.4 million compared with a \$2.5 million, remained consistent with prior year's comparative quarter.

The Company is subject to routine audits of its tax filing positions by the Canada Revenue Agency and the Internal Revenue Service (the "IRS"). In 2020, the Company appealed the findings of one such audit conducted by the IRS in respect of excise tax paid and payable during the 2015-2019 fiscal years (the "Excise Tax Audit"), and that appeal was heard by the IRS' Independent Office of Appeals in the fourth quarter of 2021. The matter remains unresolved as at March 31, 2022. The Company and its tax advisors continue to believe that the Company's tax filing positions are appropriate and, accordingly, no amounts have been accrued in the consolidated financial statements in connection with the Excise Tax Audit.

Net Loss

Net loss was \$5.3 million compared to net loss of \$11.7 million in the prior year's comparative quarter. The year over year reduction in Net loss was impacted by higher revenue, higher margin, lower share-based plan expenses, partially offset by higher general and administrative expenses, unrealized loss on derivatives, higher finance costs, and income taxes recoveries, all of which is fully described previously in this MD&A.

Other Comprehensive Income (Loss)

Total other comprehensive income (loss) ("OCI"), which includes the effect of translating Canadian operations into U.S. dollars, resulted in other comprehensive income of \$0.5 million compared with other comprehensive income of \$1.0 million in the prior year's comparative quarter. The change in OCI is the result of the Canadian dollar weakening relative to the U.S. dollar throughout the period. Effective January 1, 2022, Badger changed its presentation currency from Canadian dollars to U.S. dollars. In the interim unaudited condensed consolidated statements of financial position, all assets and liabilities have been translated using the period-end exchange rates, and all resulting exchange differences have been recognized in accumulated other comprehensive income. The Company has applied the presentation currency change retrospectively. OCI balances were restated to reflect the change in presentation currency and its impact on the net investment hedge treatment. Previously included in OCI was 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 were designated as a hedge of U.S. operations. As a result of a reporting currency change and repayment of the senior secured notes on January 24, 2022, the net investment hedge is discontinued and all appropriate changes to OCI are reflected retrospectively.

Capital Resources

Investing

Badger invested \$3.9 million in total capital expenditures during the quarter, compared with \$9.6 million in the prior year comparative quarter. Capital expenditures during the quarter were primarily related to the production of non-destructive excavation units.

In 2022, Badger expects to manufacture between 150 and 180 non-destructive excavation units and retire 40 to 60, while continuing to manufacture and purchase specialty units. Badger continues to focus on optimizing its current fleet and driving higher utilization. The Company is uniquely positioned to be able to respond to changes in regional customer service requirements due to its large non-destructive excavation fleet, extensive branch network and manufacturing capabilities.

As at March 31, 2022, Badger completed 16 non-destructive excavation units, compared with 8 units for as at March 31, 2021.

Capital Expenditures

(\$ thousands)	Three months ended March 31,	
	2022	2021
Non-destructive excavation completed units ⁽¹⁾⁽²⁾	1,156	869
Other vehicles and trailers	1,859	7,243
Buildings ⁽³⁾	842	1,354
Other	—	70
Total expenditures of property, plant and equipment	3,857	9,536
Upfront payments for right-of-use assets ⁽⁴⁾	—	31
Total capital expenditures	3,857	9,567

(1) During the first quarter of 2022, the application of the Company's accounting policy to its revised operating model resulted in the inclusion of finished goods, manufacturing parts, and work in progress as part of Inventory rather than Property, Plant and Equipment.

(2) In accordance with IFRS, the change in Inventory accounting policy application has been treated prospectively with no comparative period adjustment. As a result, the 2021 balance for non-destructive excavation completed units includes work in progress inventory previously reported as Property, Plant and Equipment; whereas, the 2022 balance has been adjusted to reflect work in progress adjustment to inventory.

(3) Additions to buildings includes expansion of the manufacturing facility in Red Deer, Alberta.

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

	Completed Units	Average Manufacturing Costs
Q1 2022	16	\$455,000
2021	32	\$440,000
2020	85	\$333,000
2019	199	\$316,000
2018	191	\$306,000

The cost to build a non-destructive excavation unit will fluctuate on an annual basis due to factors such as: the number of non-destructive excavation 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.

Lease Liability

As at March 31, 2022, the Company had \$14.7 million in lease liabilities (December 31, 2021 – \$15.4 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.

Liquidity and Capital Resources

	March 31, 2022	December 31, 2021
Committed credit facilities	320,120	315,507
Borrowings under credit facility	(120,910)	(96,802)
Letters of credit issued	(3,957)	(3,957)
Cash on hand	1,933	4,137
Available Liquidity	197,186	218,885

Badger continues to maintain sufficient liquidity. The Company's revolving credit facility is available for general corporate purposes, providing additional liquidity and financial flexibility should it be required. The Company remained in compliance with all financial covenants associated with all lending arrangements.

Syndicated revolving credit facility

The Company has a CAD \$400 million, committed syndicated revolving credit facility with a syndicate of six lenders. The committed 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 is a five-year term, matures on October 7, 2026. Badger has the flexibility to expand the syndicated revolving credit facility, subject to approval by the lenders, by an additional CAD \$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 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. Standby fees are expensed as incurred. Under the terms of the syndicated revolving credit facility, the Company must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2022, and as at March 31, 2022, the Company was in compliance with all of these covenants.

The syndicated revolving credit facility is collateralized by a general security interest over the Company's assets, property and undertaking, present and future. The outstanding letters of credit, which reduce the amount of available credit under the syndicated revolving credit facility, support the U.S. insurance program and certain other performance bonds.

As at March 31, 2022, the Company had available \$195.3 million (December 31, 2021 - \$214.7 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Senior secured notes

On January 24, 2014, Badger closed a private placement of senior secured notes with an original principal of \$75.0 million. The notes, which ranked pari passu with the syndicated revolving credit facility, had an interest rate of 4.83% per annum and matured on January 24, 2022. The final amortizing principal repayment of \$25.0 million was completed on January 24, 2022 with no outstanding balance as at March 31, 2022.

Net Working Capital

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 \$63.8 million as at March 31, 2022, compared with \$42.8 million as at December 31, 2021. The change in working capital as at March 31, 2022 resulted from an decrease in cash and trade and other receivables, decrease in income tax receivable, and decrease in current portion of senior secured notes, offset by an increase in inventories, prepaid expenses, trade and other payables, share-based liability, and dividends payable. During the first quarter of 2022, the Company changed its accounting policy related to the presentation of Inventory and Property, Plant and Equipment in regard to the inclusion of finished goods, manufacturing parts, and work in progress as part of Inventory rather than Property, Plant and Equipment. The impact of the policy change on inventory balance for the quarter ended March 31, 2022 was \$3.5 million and the remaining year over year inventory increase is a result of the Company increasing the build rate from 2021 levels to the 2022 targets.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totaled \$107.8 million as at March 31, 2022, \$6.1 million lower than the balance as at December 31, 2021, of \$113.8 million. As at March 31, 2022, 90.8% of Badger's trade receivables were aged 90 days or less, remained consistent with 90.8% at December 31, 2021. 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. Effective October 1, 2020, Badger executed an agreement with Export Development Canada, a Government of Canada Crown Corporation, to insure Badger's trade receivables portfolio. As the Company has made significant progress in improving its collections processes, effective March 31, 2022, the insurance was not renewed.

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.

Compliance

Under the terms of the syndicated revolving credit facility, the Company must comply with certain financial and non-financial covenants, as defined by the respective credit agreements. Badger is restricted from declaring dividends if it is in breach of the covenants governing its credit facilities. Throughout 2022 and 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.

There were no off-balance sheet arrangements and no significant outstanding balances with related parties as at March 31, 2022.

Share Capital

As at March 31, 2022, the number of common shares outstanding was 34,473,438 (December 31, 2021 – 34,473,438). The weighted average common shares outstanding as at March 31, 2022 was 34,473,438 (December 31, 2021 – 34,600,681).

As at May 12, 2022, 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 audited Consolidated Financial Statements for the year ended 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. The NCIB expired on March 23, 2022. Under the NCIB, the Company was permitted to acquire up to 1,500,000 common shares, which represented 4.3% of the public float at the time of approval.

During the year ended December 31, 2021, under the NCIB, the Company purchased and cancelled 380,400 common shares at a weighted average price per share of \$36.02. No purchases were made during the period beginning January 1, 2022, through March 23, 2022.

Contractual Obligations

Refer to the Company's audited Annual 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.

(\$ thousands)	2022	2023	2024	2025	2026	Thereafter	Total
Operating leases ⁽¹⁾	598	623	558	384	40	—	2,203
Service contract ⁽²⁾	3,536	3,648	—	—	—	—	7,184
Purchase commitments ⁽³⁾	56,192	173	—	—	—	—	56,365
Total	60,326	4,444	558	384	40	—	65,752

(1) Operating leases include building and office space.

(2) Contract with third party service provider for information technology services related to the ERP.

(3) Purchase commitments include amounts related to manufacturing operations, the purchase of light-duty trucks and other committed capital expenditures.

The Company does not have off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity, or capital expenditures.

Selected Quarterly Financial Information

(\$ thousands, except per share amounts)	2022	2021				2020		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue ⁽¹⁾	114,147	121,537	136,236	110,423	85,714	100,048	117,815	97,201
Canada	21,468	23,750	24,682	20,299	16,319	20,135	23,225	18,125
U.S.	92,679	97,787	111,554	90,124	69,395	79,913	94,590	79,076
Net (loss) profit	(5,265)	(4,619)	9,832	(2,248)	(11,744)	1,333	12,065	1,301
Net (loss) profit per share, basic and diluted (\$)	\$ (0.15)	\$ (0.13)	\$ 0.28	\$ (0.06)	\$ (0.34)	\$ 0.04	\$ 0.35	\$ 0.04
Dividends paid ⁽²⁾	1,429	4,309	4,322	4,465	4,192	4,021	3,943	3,796
Dividends per share, basic and diluted (\$)	\$ 0.165	\$ 0.125	\$ 0.125	\$ 0.128	\$ 0.120	\$ 0.115	\$ 0.113	\$ 0.109

⁽¹⁾ Refer to Note 15 - Segment reporting in the Company's Interim Condensed Consolidated Financial Statements for the three months ended March 31, 2022 for selected information by geographic segments.

⁽²⁾ The frequency of dividend payments was changed from monthly to quarterly effective with the March 2022 dividend payment. For year over year comparison purposes, the 2022 dividends payable amount is \$4,552 as at March 31, 2022.

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 non-destructive excavation services, particularly in the U.S., which is Badger's largest market;
- Reduced customer activity levels beginning in March 2020 as a result of COVID-19, resulting in the curtailment of the production of non-destructive excavation units 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, and over time due to 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 and the uneven growth levels from COVID-19 in the second half of 2021; and
- Additional investments related to the manufacture of non-destructive excavation units and an increase in working capital requirements associated with the underlying growth in the business.

Key Financial Metrics and Other Operational Metrics

"Revenue per truck per month" ("RPT") is a measure of non-destructive excavation fleet utilization. It is calculated using non-destructive excavation and non-destructive excavation related revenue only. RPT is calculated on both a consolidated basis and for each geographic segment by dividing non-destructive excavation and non-destructive excavation related revenue for each segment, by the average number of non-destructive excavation units in service in the segment during the period.

Effective January 1, 2022 and aligning with the new legal structure, Badger has revised the methodology in which it calculates RPT:

- Raw materials, work in progress and finished non-destructive excavation units held for sale in the normal course of operations are presented in inventory in the manufacturing legal entity will be identified as inventory on the balance sheet. The finished non-destructive excavation units are transferred to the fleet legal entities in a timely manner after completion and placed into service across Badger's branch network. Any finished non-destructive excavation units that remain in the possession of the manufacturing entity during the applicable reporting period will be counted as inventory and excluded from the RPT calculation. Non-destructive excavation units held in the fleet legal entity will continue to be included in RPT calculations for the applicable reporting period.
- RPT for Badger's operating partners and franchisees previously reflected the net revenue recognized by the Company versus the gross revenue that a non-destructive excavation units would generate. Badger's operating partner and franchisee agreements prescribe a revenue sharing between Badger and the operating partners/franchisee, and Badger has historically and will continue to report net operating revenue as part of non-destructive excavation revenue on its financial statements. To apply a consistent utilization metrics across all parts of Badger's business, the RPT for Badger's operating partners will now reflect the gross revenue generated on each non-destructive excavation units. The change in RPT calculation primarily impacts the Canadian segment as

Canada has a proportionately higher share of revenue from operating partners. The non-destructive excavation revenue determination for disclosure purposes in consolidated statement of comprehensive income will not change as part of the change to the RPT calculation. All comparative periods have been restated to reflect the change.

Revenue per truck per month – Consolidated (mixed currency)

(\$ thousands, except for RPT and average non-destructive excavation units)	Three months ended March 31,	
	2022	2021
Non-destructive excavation service revenue gross - U.S.	91,851	68,315
Non-destructive excavation service revenue gross - Canada	36,247	27,285
Total Non-destructive excavation service revenue gross	128,098	95,600
Average non-destructive excavation units ⁽²⁾	1,353	1,385
RPT ⁽³⁾	31,571	23,008

Revenue per truck per month – United States

(\$ thousands, except for RPT and average non-destructive excavation units)	Three months ended March 31,	
	2022	2021
Total revenue	92,679	69,395
Less: Other revenue	2,493	2,570
Non-destructive excavation service revenue net	90,186	66,825
Add: Operating Partner Net Revenue	1,665	1,490
Non-destructive excavation service revenue gross	91,851	68,315
Average non-destructive excavation units ⁽²⁾	972	988
RPT ⁽³⁾	31,515	23,060

Revenue per truck per month – Canada

(\$ thousands, except for RPT and average non-destructive excavation units)	Three months ended March 31,	
	2022	2021
Total revenue	21,468	16,319
Less: Other revenue	2,263	2,297
Non-destructive excavation service revenue net	19,205	14,022
Add: Operating Partner Net Revenue	9,804	7,540
Non-destructive excavation service revenue gross	29,009	21,562
Foreign exchange rate ⁽¹⁾	1,2495	1.2654
Non-destructive excavation revenue - CAD equivalent	36,247	27,285
Average non-destructive excavation units ⁽²⁾	381	398
RPT ⁽³⁾	31,712	22,880

⁽¹⁾ Foreign exchange rate calculated on a weighted average basis for the respective period.

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

⁽³⁾ RPT is calculated by taking non-destructive excavation revenue divided by the number of average trucks in service 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 non-destructive excavation units at period end

	2022	2021				2020		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Canada	375	387	377	387	397	398	399	390
U.S.	960	983	982	979	982	993	999	1,008
	1,335	1,370	1,359	1,366	1,379	1,391	1,398	1,398
Non-destructive excavation operator training center ⁽¹⁾	—	1	1	1	1	1	2	3
Total	1,335	1,371	1,360	1,367	1,380	1,392	1,400	1,401

⁽¹⁾ Represents non-destructive excavation units being utilized at Badger's U.S. non-destructive excavation operator training center. Non-destructive excavation units utilized for training on a permanent basis are not available for day-to-day revenue generation, and as such, these units are excluded from RPT calculations.

Average number of non-destructive excavation units during the period ⁽¹⁾

	2022	2021					2020			
	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2
Canada	381	393	382	382	392	398	388	399	395	386
U.S.	972	988	983	981	981	988	987	996	1,004	1,006
Total	1,353	1,381	1,365	1,363	1,373	1,386	1,376	1,395	1,398	1,399

⁽¹⁾ The average number of non-destructive excavation units during the period is calculated using a simple average between the opening number of non-destructive excavation units in service during the period and the closing number of non-destructive excavation units in service during the period. Prior quarter comparatives have been restated to reflect the change in RPT calculation. Average number of non-destructive excavation units is based on the total units in service and included in active fleet.

Marketing and Franchise Agreements

Number of Marketing and Franchise Agreements	2022	2021				2020		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Canada	15	15	15	15	15	15	15	15
U.S.	2	2	2	2	2	2	2	2

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. The Company uses these non-IFRS financial measures in addition to results prepared in accordance with IFRS. Such non-IFRS measures allow us to view certain aspects of Badger's business that, when considered alongside applicable IFRS results, may provide a more comprehensive understanding of Badger's operational and financial condition and the factors and trends affecting Badger's business. These non-IFRS 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 margin” is Adjusted EBITDA as defined above, expressed as a percentage of revenues.

Adjusted EBITDA is calculated as follows:

(\$ thousands)	Three months ended March 31,	
	2022	2021
Adjusted EBITDA		
Net loss	(5,265)	(11,744)
Add:		
Depreciation and amortization	14,298	14,091
Share-based compensation expense	724	4,216
Loss on sale and impairment of property, plant and equipment	550	76
Unrealized loss on derivative instruments	355	—
Finance cost	1,247	954
Foreign exchange loss (gain)	212	422
Income tax (recovery) expense	(1,439)	(3,651)
Adjusted EBITDA	10,682	4,364

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended March 31,	
	2022	2021
Adjusted EBITDA		
Revenue	114,147	85,714
Less:		
Direct costs	93,190	72,276
General and administrative expense	10,275	9,074
Adjusted EBITDA	10,682	4,364

Adjusted EBITDA margin is calculated as follows:

(\$ thousands except for percentages)	Three months ended March 31,	
	2022	2021
Adjusted EBITDA margin		
Adjusted EBITDA	10,682	4,364
Revenue	114,147	85,714
Adjusted EBITDA margin	9.4%	5.1%

Critical Accounting Policies and Estimates

The Company's significant accounting policies are set out in Note 4 of the 2021 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, 2021. 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 Badger's annual MD&A for the year ended December 31, 2021 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 2021 audited Annual Consolidated Financial Statements.

During the first quarter of 2022, the application of the Company's accounting policy to its revised operating model resulted in the inclusion of finished goods, manufacturing parts, and work in progress as part of Inventory rather than Property, Plant and Equipment. Inventory includes manufacturing finished goods, manufacturing and spare parts, and work in progress related to non-destructive excavation units that will be sold in the ordinary course of business. Manufacturing inventories is measured at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overhead costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. In accordance with *IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors*, the application of Inventory policy to new transactions is treated prospectively with no comparative prior period adjustments.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure Controls and Procedures

Badger's President and CEO and its SVP 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 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. Further, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's disclosure controls and procedures as at March 31, 2022 and have concluded the disclosure controls and procedures are fully effective.

Internal Control over Financial Reporting

Badger's President and CEO and its SVP 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. Further, using the criteria established in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's internal control over financial reporting at March 31, 2022 and have concluded the internal controls over financial reporting are effective.

Changes in Internal Control over Financial Reporting

There were no changes to Badger's internal control over financial reporting in the first quarter of 2022 or in the quarter ended March 31, 2022.

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", "Opportunity", "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:

- Badger’s focus on cost management and operational efficiencies and its impact on growth and on maximizing shareholder value;
- Badger’s expectations with respect to non-destructive excavation and specialty unit production and retirement in 2022 including the expected impact of the additional space leased next to Badger’s current Red Deer plant;
- Anticipated continued economic recovery from the COVID-19 pandemic in 2022 and its impact on Badger and its operations;
- Badger’s expectation that operating leverage will continue to improve
- The expectation of future market opportunities for Badger with respect to infrastructure strengthening;
- Disclosure under the heading “Business Outlook”;
- The expectation that Badger’s investment in hiring and training operators and support staff will allow Badger to effectively handle anticipated increases in volume, especially during the summer construction season;
- 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;
- The expectation that Badger’s tax filing positions are appropriate;
- Badger’s focus on fleet optimization and increased utilization;
- Expectations with respect to 2022 retirement and manufacturing volumes for non-destructive excavation units and specialty units; 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;
- Business activity levels will continue to increase as pandemic-related restrictions are loosened and there is continued economic recovery;
- 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 continue to 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 and related 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 and other business improvement initiatives; and
- Badger will obtain all labour, parts and supplies necessary to complete the planned Badger non-destructive excavation build at the costs expected.

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 Annual Information Form for the year ended December 31, 2021, 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.