

## Management's Discussion and Analysis

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The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited interim consolidated financial statements of Badger Daylighting Ltd. (the "Company" or "Badger") for the period ended June 30, 2017. Readers should also refer to the audited consolidated financial statements and MD&A for the year ended December 31, 2016, which along with all previous public filings, including the Company's Annual Information Form for the year ended December 31, 2016, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A has been prepared taking into consideration information available to August 11, 2017.

### FINANCIAL HIGHLIGHTS

(\$ thousands, except Revenue per truck per month, per share and total shares outstanding information)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue				
Hydrovac service revenue	113,455	83,739	205,945	163,196
Other service revenue	9,614	8,019	18,815	16,719
Truck placement revenue	282	223	402	223
<b>Total revenue</b>	<b>123,351</b>	<b>91,981</b>	<b>225,162</b>	<b>180,138</b>
Revenue per truck per month – quarterly average (\$) <sup>(1)</sup>	29,141	23,038	n/a	n/a
Adjusted EBITDA <sup>(1)</sup>	32,104	23,222	51,961	42,814
Adjusted EBITDA Margin (%) <sup>(1)</sup>	26.0	25.2	23.1	23.8
Profit before tax	21,651	9,778	27,182	14,905
Net profit	14,718	5,951	18,416	9,619
Profit per share (\$)	0.40	0.16	0.50	0.26
Cash flow from operating activities before working capital adjustments	31,671	23,136	51,368	42,667
Cash flow from operating activities before working capital adjustments per share (\$)	0.85	0.62	1.38	1.15
Dividends declared	3,673	3,562	7,346	6,901
Total shares outstanding (end of period)	37,100,681	37,100,681	37,100,681	37,100,681

<sup>(1)</sup> See "Non-IFRS Financial Measures" for additional detail on the definition and calculation of Adjusted EBITDA, Adjusted EBITDA Margin and Revenue per truck per month (RPT).

## OVERVIEW

### 2017 Second Quarter Financial and Operational Highlights

- Badger generated second quarter Adjusted EBITDA of \$32.1 million compared to \$23.2 million in the prior year and \$19.9 million in the first quarter of 2017. Improvements in Adjusted EBITDA were driven by revenue growth and improved cost control.
  - Revenue in the second quarter of 2017 was \$123.4 million compared to \$92.0 million in the prior year quarter and \$101.8 million in the first quarter of 2017.
  - Revenue growth compared to the prior year quarter was due to higher activity across Badger's broad range of geographic and end use markets. Specifically, Badger saw improvements in infrastructure and construction related markets due to increased overall activity levels, in addition to improvements in oil and gas markets. Higher revenues in the second quarter can also be attributed to a strong spring construction season and customer growth due to increased usage of Hydrovac as a method of non-destructive excavation in both new and existing markets.
  - Revenue growth was robust in both Canada and the US. In Canada, revenue was \$35.2 million in the second quarter of 2017 compared to \$31.2 million in the same period in 2016, representing a 12.7 percent increase. In the US, revenue for the second quarter of 2017 was USD 65.7 million compared to USD 47.0 million in the second quarter of 2016, a 39.8 percent increase.
- RPT was \$29,141 in the second quarter of 2017 compared to \$23,038 in the prior year quarter and \$24,747 in the first quarter of 2017. The year over year improvement in RPT was consistent with management's expectations. RPT benefited from the revenue growth as noted above, and from Badger's ability to optimize the utilization of its Hydrovac fleet. Optimization of the fleet is driven from Badger's broad network of local branches that allow the Company to transfer units to locations with stronger activity.
- Adjusted EBITDA margin for the second quarter of 2017 was 26.0 percent compared to 25.2 percent in the prior year quarter and 19.5 percent in the first quarter of 2017.
  - Adjusted EBITDA margins for the second quarter of 2017 were consistent with improving trends experienced later in the first quarter as discussed in the Q1 MD&A. Higher levels of operating costs early in the first quarter have moderated. Adjusted EBITDA margins for the second quarter were positively impacted by the revenue growth indicated above and by an early start to the construction season in several of our northern markets.
  - Adjusted EBITDA and the Adjusted EBITDA margin for the second quarter of 2017 includes \$1.7 million in costs that related to accruals for legal and professional related fees, truck maintenance associated with the installation of cameras in Badger's Hydrovac, other revenue vehicles and light truck fleets and severance costs related to reorganizing several Canadian operating centers.
- Badger had 1,056 Hydrovacs at the end of the second quarter of 2017 compared to 1,019 and 1,031 at June 30, 2016 and March 31, 2017 respectively. Badger invested \$22.9 million in total capital in the second quarter of 2017. Due to ongoing organic growth and market opportunities, Badger anticipates a need to grow the Hydrovac fleet throughout the remainder of 2017. See "Outlook" and "Capital Resources" for additional details.
- Net profit for the second quarter of 2017 was \$14.7 million or \$0.40 per share compared to \$6.0 million or \$0.16 per share in the prior year quarter.
- Badger's total debt less cash and cash equivalents was \$53.1 million at June 30, 2017 with a corresponding debt less cash and cash equivalents to trailing-twelve month's Adjusted EBITDA ratio of 0.47. Badger continues to maintain a strong balance sheet, providing the necessary resources and financial flexibility to facilitate ongoing growth in the business.

- On August 11, 2017, Badger extended its revolving term syndicated credit facility. The updated facility is a four-year term, expiring on August 11, 2021. See “Financing” for additional details.
- Given Badger’s strong cash flow generation, our expectation for continued growth and the strength of the balance sheet, Badger’s Board of Directors approved a fifteen percent increase in the dividend, from \$0.033 per share per month to \$0.038 per share per month, beginning with the August, 2017 dividend payable in September, 2017. The last increase in the dividend was in May, 2016.

## **Outlook**

Badger anticipates that this positive momentum from the second quarter will continue into the second half of 2017. The overall macro-economic environment in both Canada and the US appears to be supportive of ongoing infrastructure, construction, and oil and gas activity levels for the second half of 2017 and into 2018. In addition to increased levels of activity, we continue to see positive momentum as a result of increased customer usage of Hydrovac for non-destructive excavation. Badger expects to see improvements in revenue due to our investments in developing and expanding our geographic footprint and business development network.

Continued growth across our end-use markets and geographies throughout the second quarter has resulted in improved Hydrovac utilization as evidenced by higher realized revenue per truck. Badger anticipates that the number of new Hydrovac builds for 2017 will be at the high end of its previously communicated range of 100 to 160 units. 2017 truck retirements are expected to be between 50 and 60 units, up slightly from the previously provided range of 40 to 50 units as we continue to manage the fleet to balance equipment repair and maintenance expenses versus truck replacements.

## **2017 Investor Day**

Badger is pleased to announce it is holding an Investor Day on Thursday, November 16, 2017 at the King Edward Hotel in Toronto. An update on Badger’s operations, short and long-term growth opportunities and financial position will be presented. Badger’s executive and operational leadership teams will be in attendance. The formal presentation will commence at 9:00AM EST, a light breakfast and lunch will be served. Attendance in person for this event is by invitation as space is limited. The presentation will be webcast, and available on Badger’s website [www.badgerinc.com](http://www.badgerinc.com). To request an invitation, please e-mail your contact information to [rsvpinvestorday@badgerinc.com](mailto:rsvpinvestorday@badgerinc.com).

## Results of Operations

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### Revenues

Revenues of \$123.4 million for the three months ended June 30, 2017 were 34.1 percent higher than the \$92.0 million generated during the comparable period in 2016 (\$225.2 million for the six months ended June 30, 2017 as compared to \$180.1 million in the same period of 2016). The increase in the second quarter of 2017 over the same quarter of the prior year is attributable to the following:

- United States revenue in US dollars increased by 39.8 percent to \$65.7 million in the second quarter of 2017 from \$47.0 million in the second quarter of 2016. Revenue growth was achieved across the US. Revenue growth is being achieved by expanding the business into new markets, by growing revenue with existing customers, and by recovery in oil and gas producing regions. On conversion to Canadian dollars, Badger benefitted from a stronger US dollar relative to last year. The above noted 39.8 percent increase in US dollar denominated revenue translated to a 45.1 percent increase in revenue as reported in Canadian dollars. US revenue in Canadian dollars increased to \$88.2 million, from \$60.8 million in the second quarter of 2016.
- Canadian revenue increased by 12.7 percent, led by demand for Hydrovac services in Western Canada. Badger is seeing increasing demand in oil and gas producing regions as well as increased demand amongst non-oil and gas customers in Western Canada. Part of the year over year increase relates to the negative impact of wild fires in Fort McMurray during the second quarter of 2016. Eastern Canadian Hydrovac revenue was flat in the second quarter of 2017 compared to the same quarter of 2016. Eastern Canada continues to be a competitive and price sensitive market, although we are beginning to see improvements in pricing as new Ontario Ministry of Transportation regulations for Hydrovacs are introduced.

Badger's average RPT during the second quarter of 2017 was \$29,141 versus \$23,038 for the second quarter of 2016. Revenue per truck has increased in recent quarters and as a result of anticipated future demand, production of Badger units has increased. Revenue per truck is a mixed currency measure, for more information see the definition of this measure under the "Non-IFRS Financial Measures" section.

### Direct Costs

Direct costs for the quarter ended June 30, 2017 were \$86.7 million as compared to direct costs of \$64.9 million in the second quarter of 2016. Direct costs as a percent of revenue decreased from 70.5 percent in the second quarter of 2016 to 70.3 percent in the second quarter of 2017 (direct costs were 73.2 percent of revenue for the six months ended June 30, 2017 and 71.9 percent for the same period of 2016).

The largest factor leading to lower direct costs as a percent of revenue was lower wages and benefits. Wages and benefits as a percent of revenue was lower across the Company and demonstrates operations management commitment to overall cost control.

Badger continues to experience higher fuel costs versus the prior year, with the price of diesel fuel being approximately 11 percent higher in the second quarter of 2017 compared to the same period of 2016. Badger has introduced a fuel surcharge but, as it was introduced late in the second quarter, there was no significant benefit to second quarter results.

Included in direct costs is bad debt expense. Bad debt expense was \$0.9 million in the second quarter of 2017 and

\$0.3 million in the second quarter of 2016. For the six month period in 2017, bad debt expense was \$1.2 million, or 0.5 percent of revenue, which conforms to Badger's historical average.

Several costs were incurred that increased direct costs in second quarter of 2017 specifically. Badger recorded an accrual for a legal settlement related to employment matters in the Western US. No significant further expense is expected in relation to this matter. Badger also incurred additional expenses related to reorganizing certain individual operating centers in Canada. Finally, Badger deployed an initiative to retrofit all vehicles in the fleet with safety cameras. This program is approximately two thirds complete, with the deployment expected to be complete in the third quarter of 2017. The safety camera retrofit program further supports Badgers commitment to safety. Footage retained from this program has already supported reduced liability for our operators and Badger and is being used in safety training initiatives. The cost for the safety camera program, like all past retrofit and repair and maintenance was expensed as incurred. Badger does not capitalize costs to maintain our Hydrovacs, other revenue or light duty vehicle fleets beyond the initial cost to build or buy and place these units into service. The direct costs associated with the accrual for the legal settlement, severance costs and safety camera retrofit were \$1.7 million in the second quarter.

### **Gross Profit**

The gross profit margin was 29.7 percent for the second quarter of 2017, up from 29.5 percent for the second quarter of 2016 (26.8 percent for the six months ended June 30, 2017 and 28.1 percent in the same period of 2016). Canada had a gross profit margin of 23.9 percent in the second quarter compared to 25.8 percent in the second quarter of 2016. United States gross profit margin was 32.0 percent in the second quarter of 2017 compared to 31.3 percent in the second quarter of 2016.

### **Depreciation of Property, Plant and Equipment**

Depreciation of property, plant and equipment was \$11.3 million for the second quarter of 2017, as compared to \$10.5 million in the second quarter of 2016 (\$22.3 million for the six months ended June 30, 2017 and \$21.8 million for the same period of 2016). Depreciation expense has increased as Badger has manufactured and put into service 64 units in the first six months of 2017, as compared to 25 units manufactured in the first six months of 2016.

### **General and Administrative Expenses**

General and administrative expenses increased from \$3.9 million in the second quarter of 2016 to \$4.5 million in the second quarter of 2017 on increases in staffing – both in management as well as administrative support to facilitate Badger's continued growth. Badger has also incurred consulting costs to support several key strategic initiatives including improving communications and investor relations as well as evaluating our technology and business support applications. These are initiatives that Badger will continue to pursue to support continued growth. As a percentage of revenues, general and administrative expenses decreased from 4.2 percent in the second quarter of 2016 to 3.7 percent in the second quarter of 2017. Badger's target for general and administrative expenses remains at four percent of revenue.

### **Share-based Compensation Expense**

Share-based compensation recovery was \$2.5 million in the second quarter of 2017 compared to an expense of \$1.5 million in the same quarter of 2016. The share-based compensation recovery was primarily the result of a decrease in our share price. Stock-based compensation expense fluctuates based on the effects of vesting and

volatility in Badger's share price.

### **Loss (Gain) on Sale of Property, Plant and Equipment**

A gain on sale of property, plant and equipment for the six months ended June 30, 2017 was less than \$0.1 million as the disposal of units retired resulted in recovering funds in excess of their residual values. In the same period of 2016, there was a \$2.4 million loss on sale of property, plant and equipment resulting from disposing sixteen vehicles with a particular engine that proved to be unreliable. The loss on these sixteen vehicles was recognized in the first quarter of 2016. Badger does not sell completed Hydrovacs, but does dispose of bare chassis from retired units.

### **Finance Cost**

Finance cost was \$1.3 million for both the second quarter of 2017 and 2016. Finance costs were comparable between periods as there was no balance drawn on the syndicated revolving credit facility in either period so the only debt outstanding was the senior secured notes.

### **Income Taxes**

The effective tax rate for the second quarter of 2017 was 32.0 percent compared to 39.1 percent in the same period in 2016. As consolidated taxable income shifts to the US, a relatively higher tax jurisdiction, effective tax rates for the Company as a whole will increase, however this was more than offset by the tax benefit of transferring Badger units manufactured in Canada to the US.

### **Net Profit**

Net profit for the period increased from \$6.0 million to \$14.7 million, a 147 percent increase as strong revenue and effective cost control drove higher operating profits. A lower share price resulted in a recovery of share-based compensation expense, and finally, a lower effective tax rate combined for significantly higher net profit.

### **Other Comprehensive Income**

Total other comprehensive income, which includes the effect of translating US operations and the offsetting translation of US dollar denominated senior secured notes that are designated as a hedge of the US operations resulted in net other comprehensive loss of \$3.9 million in the second quarter of 2017 compared to an other comprehensive gain of \$0.3 million in the second quarter of 2016. The loss came as the USD weakened between the end of the first quarter and the end of the second quarter 2017.

### **Liquidity and Dividends**

Cash flow from operations after non-cash working capital adjustments decreased from \$20.0 million in the second quarter of 2016 to \$10.8 million in the second quarter of 2017. Cash flow from operations before non-cash working capital adjustments increased from \$23.1 million in the second quarter of 2016 to \$31.7 million in second quarter of 2017, however the acceleration of revenue into the second quarter resulted in higher receivables and increased working capital. This build in receivables is reflected in the current aging category as there is \$60.3 million in receivables less than 30 days old, compared to \$36.5 million at year end.

The Company uses its cash to pay dividends to shareholders, to build additional Hydrovac units and for general corporate purposes.

The Company had working capital of \$110.5 million at June 30, 2017 compared to \$121.3 million at December 31, 2016. The largest component of working capital is trade and other receivables. Trade and other receivables has increased from \$92.5 million at December 31, 2016 to \$109.6 million at June 30, 2017. Trade and other receivables has increased along with the increase in revenue. Accrued revenue and other receivables has increased from \$2.6 million at December 31, 2016 to \$8.6 million largely on an increase in accrued revenue. Badger accrues revenue for which services have been completed and for which an invoice has not been rendered. All such amounts are considered collectible and consistent with Badger's revenue recognition policy. Accrued revenue has increased due to the acceleration in demand for Badger's services and overall higher levels of activity in June 2017 as compared to December 2016.

Badger is restricted from declaring dividends if it is in breach of the covenants under its credit facilities. As at the date of this MD&A the Company is in compliance with all debt covenants and is able to fully utilize its credit facilities as well as declare dividends. Badger does not have a credit rating.

## **Capital Resources**

### **Investing**

The Company invested \$22.9 million on property, plant and equipment for the three months ended June 30, 2017 compared to \$7.5 million for the three months ended June 30, 2016. The majority of the capital spend was for the production of 41 Hydrovacs in the second quarter of 2017 (12 in the second quarter of 2016).

<b>(All amounts are \$000's)</b>	<b>Three Months Ended June 30,</b>		<b>Six months ended June 30,</b>	
<b>Capital expenditures</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Hydrovac trucks and related work in process	20,814	4,847	35,734	8,977
Other vehicles and trailers	1,806	2,638	4,287	2,831
Buildings	26	-	26	-
Other	215	54	600	156
<b>Total capital expenditures</b>	<b>22,861</b>	<b>7,539</b>	<b>40,647</b>	<b>11,964</b>

The cost to build a Hydrovac fluctuates over time due to production volume in the Red Deer manufacturing facility, cost of labour and materials and foreign currency as many materials are denominated or otherwise influenced by exchange rates. For 2017, the average cost to manufacture a Hydrovac is expected to be between \$390,000 and \$410,000. The cost to manufacture does not include local sales taxes incurred upon final delivery or shipping costs. Included in capital expenditures is the cost to manufacture as well as additional costs to place the unit in service such as shipping costs and non-refundable sales taxes. The amount of capital expenditures in any one reporting period will fluctuate with production levels as work in process is included as a capital expenditure. Badger will provide the final cost to manufacture a Hydrovac along with annual disclosure going forward.

	<b>Average Cost to Manufacture (\$ 000's)</b>
2016 <sup>(1)</sup>	375
2015	390
2014	351
2013	338
2012	339

- (1) The average costs for new units was reduced in 2016 as there were 16 units that were built on new cab and chassis with reused components from retired units.

## **Financing**

### **Syndicated credit facility**

The Company has established a \$125 million syndicated revolving credit facility (the “credit facility”). The purpose of the credit facility is for general liquidity management, general corporate purposes and to finance Badger’s capital expenditure program. The credit facility bears interest, at the Company’s option, at either the bank’s prime rate plus a tiered set of basis points or bankers’ acceptance rate also with a tiered structure. A stand-by fee is also required on the unused portion of the credit facility on a tiered basis. The prime rate tiers range between zero and 125 basis points. The bankers’ acceptance tiers range from 125 to 250 basis points. The stand-by fee tiers range between 25 and 50 basis points. All of the tiers are based on the Company’s Funded Debt to “Bank EBITDA” ratio. Bank EBITDA is defined as earnings before interest, taxes, depreciation and amortization. The stand-by fee is expensed as incurred.

The credit facility is collateralized by a general security interest over the Company’s assets, property and undertaking, present and future.

Under the terms of the credit facility, the Company must comply with certain financial and non-financial covenants, as defined by the bank. Throughout 2017, and as at June 30, 2017, the Company was in compliance with all of these covenants. A complete listing and definition of the debt covenants is found in the Company’s annual consolidated financial statements for the year ended December 31, 2016.

As at June 30, 2017, the Company has issued letters of credit of approximately \$3.6 million. The outstanding letters of credit support the U.S. insurance program and certain performance bonds and reduce the amount available under the syndicated credit facility.

At June 30, 2017, the Company had available \$121.4 million (December 31, 2016 - \$121.3 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

On August 11, 2017, Badger extended its credit facility with a syndicate of three lenders. The credit facility, which is approximately \$145 million in aggregate Canadian dollars, consists of a \$50 million Canadian dollar tranche and a \$75 million US dollar tranche, providing Badger with the administrative flexibility to borrow in both Canada and the United States. Financial covenants and pricing of the credit facility were unchanged. The credit facility, which is a four year term, matures on August 11, 2021. The previous \$125 million credit facility was denominated solely in Canadian dollars and would have expired on July 22, 2018. Badger maintains the flexibility to expand the credit facility with syndicate approval by an additional \$100 million (previously \$50 million).

### **Senior secured notes**

On January 24, 2014 Badger closed a private placement of senior secured notes. The notes, which rank pari passu with the extendable revolving credit facility, have a principal amount of US \$75.0 million and an interest rate of 4.83 percent per annum and mature on January 24, 2022. The Canadian dollar equivalent on January 24, 2014 was \$82.9 million. Amortizing principal repayments of US \$25.0 million are due under the notes on January 24, 2020, January 24, 2021 and January 24, 2022. Interest is paid semi-annually in arrears.

The senior secured notes are collateralized by a general security interest over the Company’s assets, property and undertaking, present and future.

Under the terms of the credit facility and the senior secured notes, the Company must comply with certain financial and non-financial covenants, as defined by the bank. A description of the compliance with covenants is included in the liquidity and dividends section.

## SHARE CAPITAL

Shares outstanding at June 30, 2017 and August 11, 2017 were 37,100,681.

## SELECTED QUARTERLY FINANCIAL INFORMATION

All amounts are \$000's except Per Share amounts are \$'s	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	123,351	101,811	110,896	113,167	91,981	88,157	101,064	111,431
Net profit	14,718	3,698	7,349	11,944	5,951	3,668	20,486	17,090
Net profit per share – basic and diluted	0.40	0.10	0.20	0.32	0.16	0.10	0.55	0.46

## CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements and information contained in this MD&A and other continuous disclosure documents of the Company referenced herein, including statements related to the Company’s capital expenditures, projected growth, view and outlook toward margins, cash dividends, customer pricing, future market opportunities and statements, and information that contain words such as “could”, “should”, “can”, “anticipate”, “expect”, “believe”, “will”, “may” and similar expressions relating to matters that are not historical facts, constitute “forward-looking information” within the meaning of applicable Canadian securities legislation. These statements and information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The Company believes the expectations reflected in such forward-looking statements and information are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements and information included in this MD&A should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this MD&A.

In particular, forward looking information and statements in this MD&A include the following:

- Badger’s belief that the overall macro-economic environment in both Canada and the US is supportive of ongoing infrastructure, construction, and oil and gas activity levels for the second half of 2017 and into 2018.
- In addition to increased levels of activity, we continue to see positive momentum as a result of increased customer usage of Hydrovac for non-destructive excavation. Badger expects to see ongoing improvements in revenue due to the ongoing investments in developing and expanding our geographic footprint and business development network.
- Continued growth across our end-use markets and geographies throughout the second quarter has resulted in improved Hydrovac utilization as evidenced by the realized higher revenue per truck. As a result, Badger anticipates that the number of new Hydrovac builds for 2017 will be at the high end of its previously

communicated range of 100 to 160 units.

- We also intend to manage the fleet to balance equipment repair and maintenance expenses. 2017 retirements are expected to be between 50 and 60 units, up slightly from the previously provided range of 40 to 50 units.
- The cost to build a Hydrovac fluctuates due to production volume in the Red Deer manufacturing facility, cost of labour and materials and foreign currency as many materials are denominated or otherwise influenced by exchange rates. For 2017, the average cost to manufacture a Hydrovac is expected to be between \$390,000 and \$410,000.

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 has the ability to achieve its revenue, net profit and cash flow forecasts for 2017;
- There will be a long-term demand for Hydrovac services from infrastructure and industrial facilities 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 unforeseen factors;
- The overall market for its services will not be adversely affected by weather, natural disasters, global events, legislation changes, technological advances, economic disruption or other factors beyond Badgers control;
- Badger will execute its growth strategy including attracting and retaining key personnel; and
- Badger will obtain all labour, parts and supplies necessary to complete the planned Hydrovac build at the costs expected.

Risk factors and other uncertainties that could cause actual results to differ materially from those anticipated in such forward-looking statements include, but are not limited to: price fluctuations for oil and natural gas and related products and services; political and economic conditions; industry competition; Badger's ability to attract and retain key personnel; the availability of future debt and equity financing; changes in laws or regulations, including taxation and environmental regulations; extreme or unsettled weather patterns; and fluctuations in foreign exchange or interest rates.

Readers are cautioned that the foregoing factors are not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results is included in reports on file with securities regulatory authorities in Canada and may be accessed through the SEDAR website ([www.sedar.com](http://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.

## **NON-IFRS FINANCIAL MEASURES**

This MD&A contains references to certain financial measures, including some that do not have any standardized

meaning prescribed by IFRS and that may not be comparable to similar measures presented by other Companies or entities. These financial measures are identified and defined below:

“**Adjusted EBITDA**” is earnings before interest, taxes, depreciation and amortization, share-based compensation, gains and losses on sale of property, plant and equipment, and gains and losses on foreign exchange. Adjusted EBITDA is a measure of the Company’s operating profitability and is therefore useful to management and investors as it provides improved continuity with respect to the comparison of our 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 our control and it excludes share-based compensation as these expenses can vary significantly with changes in the price of our common shares.

Adjusted EBITDA is calculated as follows:

<b>Adjusted EBITDA</b>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net profit	14,718	5,951	18,416	9,619
Add:				
Depreciation of property, plant and equipment	11,337	10,533	22,275	21,809
Share-based compensation expense	(2,529)	1,487	(416)	1,140
(Gain) loss on sale of property, plant and equipment	(5)	157	(39)	2,392
Finance cost	1,300	1,279	2,577	2,627
Foreign exchange gain	350	(12)	382	(59)
Tax expense	6,933	3,827	8,766	5,286
<b>Adjusted EBITDA</b>	<b>32,104</b>	<b>23,222</b>	<b>51,961</b>	<b>42,814</b>

Adjusted EBITDA is more directly calculated as follows:

<b>Adjusted EBITDA</b>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenue	123,351	91,981	225,162	180,138
Less:				
Direct costs	86,739	64,874	164,909	129,509
General and administrative expense	4,508	3,885	8,292	7,815
<b>Adjusted EBITDA</b>	<b>32,104</b>	<b>23,222</b>	<b>51,961</b>	<b>42,814</b>

“**Adjusted EBITDA Margin**” is Adjusted EBITDA as defined above, expressed as a percentage of Revenues.

“**Revenue per truck per month**” (RPT) is a measure of Hydrovac fleet utilization. It is a measure of Hydrovac revenue only. The RPT is calculated by combining Canadian and US dollar Hydrovac revenue without converting for exchange differences, dividing the Hydrovac revenue for the period by the number of Hydrovacs in service

throughout the period, and further dividing by the number of months in the period.

Revenue per truck (/mo)	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total	29,141	24,747	27,023	28,062	23,038	21,105	25,197	28,106

## FLEET SUMMARY

Number of Hydrovacs	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Canada	353	343	356	353	358	361	364	375
US	703	688	668	675	661	651	654	645
Total	1,056	1,031	1,024	1,028	1,019	1,012	1,018	1,020

## MARKETING AND FRANCHISE AGREEMENTS

Number of Marketing and Franchise Agreements	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Canada	11 <sup>(1)</sup>	12	12	12	12	12	13	14
US	3 <sup>(2)</sup>	4	4	5	5	5	5	5
Total	14	16	16	17	17	17	18	19

<sup>(1)</sup> Badger purchased the assets of one Operating Partner due to the retirement of the owner.

<sup>(2)</sup> Expiration and Non-renewal of one US-based Franchise agreement.

## FOREIGN EXCHANGE RATES

Foreign exchange rates are an important factor that affects the results of Badger's operations.

1 USD:CAD	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Quarterly average	1.3457	1.3229	1.3340	1.3051	1.2885	1.3748	1.3354	1.3085
Period end	1.2977	1.3323	1.3426	1.3116	1.3009	1.2970	1.3847	1.3391

## CHANGES IN ACCOUNTING POLICIES

There were no new accounting standards that were adopted in the second quarter of 2017.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

### **Disclosure Controls and Procedures**

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Badger's President and CEO and its VP Finance and CFO have designed, or caused to be designed under their direct supervision, Badger's disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, adopted by the Canadian Securities Administrators) to provide reasonable assurance that (i) material information relating to Badger, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and (ii) material information required to be disclosed in the annual filings is recorded, processed, summarized and reported on a timely basis.

### **Internal Control over Financial Reporting**

Badger's President and CEO and its VP Finance and CFO have also designed, or caused to be designed under their direct supervision, Badger's internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Badger uses the the criteria established in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of Badger's internal control over financial reporting.

### **Changes in Internal Control over Financial Reporting**

There were no changes to Badger's internal control over financial reporting in the second quarter of 2017.

### **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.

## **DESCRIPTION OF BUSINESS**

*Badger is North America's largest provider of non-destructive excavating services. Badger traditionally works for contractors and facility owners in the utility and petroleum industries. The Company's key technology is the Badger Hydrovac, which is used primarily for safe digging in congested grounds and challenging conditions. The Badger Hydrovac uses a pressurized water stream to liquefy the soil cover, which is then removed with a powerful vacuum system and deposited into a storage tank. Badger manufactures its truck-mounted Hydrovac units.*

*Badger's business model involves the provision of excavating services through two distinct methods: via Badger Corporate operations and via operating partners (franchisees in the United States and agents in Canada). For the first method, Badger has established corporate run operations in locations to market and deliver the service in the local area directly. For the second method, Badger Corporate works 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 all work is invoiced by Badger and then shared with the operating partner based upon a revenue sharing formula. In the earlier phase of its growth and development Badger frequently used operating partners to expand its business into new markets. Badger's operating partners remain an important part of Badger's operations, however, Badger now pursues expansion into new geographic areas mainly through Badger Corporate operations.*

## **BUSINESS RISKS**

[Reference is also made to Badger's 2016 Annual Information Form]