



**Management's Discussion and Analysis
FOR THE THREE MONTHS ENDED MARCH 31, 2020**

May 7, 2020

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto of Badger Daylighting Ltd. (the "Company" or "Badger") for the three months ended March 31, 2020. Readers should also refer to all previous public filings, including the Company's 2019 audited annual consolidated financial statements and notes thereto and the Annual Information Form for the year ended December 31, 2019, both of which may be found on SEDAR at www.sedar.com.

This MD&A is dated and has been prepared taking into consideration information available to May 7, 2020. All references to "dollars" and "\$" are to the currency of Canada unless otherwise indicated. This MD&A includes forward-looking statements and assumptions. See "Cautionary Statements Regarding Forward-Looking Information and Statements" for additional details.

Overview of Badger

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

Badger's business model involves the provision of excavating services through two distinct business methods: via Badger corporate operations and via operating partners (franchisees in the United States and agents in Canada). For the first method, Badger has established corporate run operations in locations to market and deliver the service in the local area directly. For the second method, Badger's corporate operations work with its operating partners in certain locations to provide hydrovac services to the end user. In this partnership, Badger provides the expertise, the trucks, and North American marketing and administration support. The operating partners deliver the service by operating the equipment and developing their local markets. Under the operating partner model, Badger continues to own the trucks, with all revenue invoiced by Badger and then shared with the operating partner based upon a revenue-sharing formula. In the earlier phase of its growth and development, Badger frequently used operating partners to expand its business into new markets. Badger's operating partners remain an important part of Badger's operations; however, Badger now pursues expansion into new geographic areas primarily through Badger corporate operations.

Financial Highlights

(\$ thousands, except revenue per truck per month ("RPT"), per share and share information)	Three months ended March 31,	
	2020	2019
Revenue:		
Hydrovac service revenue	130,207	141,214
Other revenue	6,471	5,400
Total revenue	136,678	146,614
RPT - Consolidated (mixed currency) ⁽¹⁾	24,966	30,832
RPT - U.S. (U.S. dollars) ⁽¹⁾	25,959	31,614
RPT - Canada (Canadian dollars) ⁽¹⁾	22,361	28,910
Adjusted EBITDA ⁽¹⁾	18,139	33,274
Adjusted EBITDA per share, basic and diluted ⁽¹⁾⁽²⁾	\$0.52	\$0.91
Adjusted EBITDA margin ⁽¹⁾	13.3%	22.7%
Profit before income tax	6,838	8,370
Net profit	5,068	6,031
Net profit per share, basic and diluted ⁽²⁾	\$0.15	\$0.16
Cash flow from operating activities before working capital adjustments	18,174	32,632
Cash flow from operating activities before working capital adjustments per share, basic and diluted ⁽²⁾	\$0.52	\$0.89
Dividends paid	4,972	4,885
Weighted average common shares outstanding ⁽²⁾⁽³⁾	34,892,213	36,592,791

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

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

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

Comparable IFRS Financial Information⁽¹⁾

(\$ thousands, except per share information)	Three months ended March 31,	
	2020	2019
Cash flow from operating activities	25,788	36,189
Cash flow from operating activities per share, basic and diluted ⁽²⁾	\$0.74	\$0.99

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

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

Overview

2020 First Quarter Financial and Operational Highlights

- Badger generated Adjusted EBITDA of \$18.1 million for the first quarter of 2020, compared to the prior year comparative quarter of \$33.3 million. The reduction in Adjusted EBITDA was driven by reduced revenue, lower gross profit margins and higher direct and general and administrative costs.
 - Revenue for the first quarter of 2020 of \$136.7 million was \$9.9 million, or 7% lower compared to \$146.6 million in the prior year comparative quarter.
 - Revenue in the U.S. operations for the first quarter of 2020 was US\$79.0 million, US\$4.5 million or 5% lower than the prior year comparative quarter of US\$83.5 million. The reduction in revenue in the U.S. operations was largely attributable to the impact of COVID-19, which resulted in a broad based slowdown of the North American economy beginning in March 2020. Prior to the impacts of COVID-19, Badger realized revenue growth in the first quarter of 2020 in a number of its U.S. geographic and end use markets, largely attributable to increased customer demand as a result of the ongoing adoption of hydro excavation as the preferred method for non-destructive excavation.
 - Excluding the impact of COVID-19, revenue growth in a select number of U.S. regions was less than the revenue growth realized in the prior year comparative quarter as a result of reduced customer demand due primarily to a combination of reduced general activity levels and regional competitive factors.
 - Revenue in the Canadian operations for the first quarter of 2020 of \$30.5 million was \$5.1 million, or 14% lower than the prior year comparative quarter with revenue of \$35.6 million. The decrease in revenue is due to reduced customer demand in Western Canada driven by a slowdown in oil and gas activity, which more than offset modestly higher revenues in Eastern Canada. In addition, revenues were negatively impacted by the economic slowdown due to COVID-19 as noted above.
 - Average hydrovac rates were consistent across the majority of the U.S. and Canadian markets compared to the prior year comparative quarter.
- RPT for the first quarter of 2020 was \$24,966 on a consolidated basis compared to the prior year comparative quarter of \$30,832. RPT in the U.S. operations was US\$25,959 compared to US\$31,614 in the prior year comparative quarter, with RPT in the Canadian operations of \$22,361 compared to \$28,910 in the prior year comparative quarter. RPT in the U.S. and Canadian operations was negatively impacted by reduced revenues due to a combination of the impact of COVID-19 and a general slowdown in activity levels as noted above.
- Gross profit margin for the first quarter of 2020 was 22.2%, or 680 basis points lower than the prior year comparative quarter of 29.0%. Adjusted EBITDA margin for the first quarter of 2020 was 13.3%, or 940 basis points lower than the prior year comparative margin of 22.7%.
 - Gross profit margin in the first quarter of 2020 was impacted by reduced revenues, higher labour and labour related costs and the impact of reduced labour efficiency in a number of markets where revenue growth was modest relative to the prior year comparative quarter. In addition, COVID-19 related market slowdowns had a significant impact on March operations, with operational adjustments to reduce labour costs lagging the reduction in activity levels.
 - Adjusted EBITDA margin was impacted for the same reasons as gross profit margin, combined with a temporary increase in general and administrative expenses (“G&A”), due primarily to costs associated with the implementation of Badger’s enterprise resource planning system (“ERP”) and business improvement initiatives. In particular, the majority of ERP activities were expensed in the current year quarter versus being capitalized in the prior year comparative quarter.

- During the first quarter of 2020, Badger placed 38 net hydrovacs into service, consisting of 58 new and 20 retired.
- As at March 31, 2020, Badger had 1,402 total hydrovacs compared to 1,241 in the prior year comparative quarter and 1,364 as at December 31, 2019.
 - As disclosed on April 1, 2020, in response to the COVID-19 pandemic, Badger is curtailing the production of hydrovacs. Hydrovacs that were in production prior to April 1, 2020, will be completed in the normal course; in addition, the Company intends to manufacture a small number of specialty units throughout 2020.
- Net profit for the first quarter of 2020 was \$5.1 million or \$0.15 per share compared to \$6.0 million or \$0.16 per share in the prior year comparative quarter. Net profit for the first quarter of 2020 was impacted by the same items as Adjusted EBITDA, in addition to higher depreciation and amortization expense, offset in part, by reduced share-based plan expense. Net profit per share on a quarter-over-quarter basis benefitted from a 5% reduction in the weighted average common shares outstanding as a result of common shares repurchased under the Company's normal course issuer bid ("NCIB") program.
 - Badger continues to maintain a strong balance sheet. As at March 31, 2020, total debt less consolidated cash and cash equivalents was \$189.5 million, with a corresponding total debt less consolidated cash and cash equivalents to Compliance EBITDA ratio of 1.3:1.0, well within its covenant threshold of 4.0:1.0.
 - On May 7, 2020, the Company entered into a \$100 million, one-year supplemental credit facility. The facility is available for general corporate purposes, providing the Company with additional liquidity and financial flexibility should it be required.
 - As at May 7, 2020, the Company has approximately \$100 million of cash and cash equivalents and has access to over \$200 million of undrawn borrowing capacity under its committed credit facilities.
 - During the first quarter of 2020, pursuant to the Company's NCIB, Badger purchased and cancelled 69,900 of its common shares at a weighted average price per share of \$29.72. See "Normal Course Issuer Bid" for additional details.

COVID-19 Update and Business Restructuring Activities

COVID-19 Update

As disclosed on April 1, 2020, in response to the COVID-19 pandemic and its impact on the North American economy, the Company has implemented a variety of actions to protect the health and safety of its employees, customers and the communities in which it serves, in addition to minimizing the disruption to its business. The Company continues to follow the advice of governments and health authorities in the jurisdictions that it operates in.

In order to minimize the financial impact of COVID-19 on its business, the Company has undertaken the following actions:

- Salary and related compensation reductions for the senior leadership team, the operations and administrative teams and the Board of Directors;
- A reduction in headcount across all functions within the business through a combination of both temporary and permanent reductions;
- The curtailment of new hydrovac production at the Company's Red Deer, Alberta manufacturing facility; and
- On May 7, 2020, the Company entered into a supplemental \$100.0 million credit facility. The facility is available for general corporate purposes, providing the Company with additional liquidity and financial flexibility should it be required. Key conditions of the facility, including financial covenants and pricing, are

consistent with the Company's existing syndicated revolving credit facility. The supplemental credit facility has a term of one year, expiring on May 6, 2021.

The Company continues to actively manage and monitor all aspects of its business as a result of the current and future potential impact that COVID-19 has, and may have, on the North American economy. The Company has realized a reduction in demand for its services as a result of COVID-19 and expects this to continue until such time that the overall North American economy stabilizes. Hydrovac and related services have been designated as essential services, as such, the Company continues to focus on providing its customers with safe and reliable non-destructive excavation services.

The Company continues to maintain a strong financial position. As at May 7, 2020, the Company has approximately \$100 million of cash and cash equivalents and has access to over \$200 million of undrawn borrowing capacity under its committed credit facilities. As at March 31, 2020, the Company's Total Debt, net of consolidated cash and cash equivalents, to Compliance EBITDA, calculated on a trailing twelve months basis was 1.3:1.0, well within the covenant threshold of 4.0:1.0.

The Company is currently assessing its eligibility and the applicability of the various incentives, subsidy and deferral programs that the U.S. and Canadian government have currently enacted or are proposing to implement. The Company intends to participate in all applicable programs at both a corporate level as well as facilitating and coordinating, as required, government programs specific to its employees. As at March 31, 2020, the Company's financial results do not include the impact, if any, that these programs may have on the Company.

Business Restructuring Activities

In addition to headcount and general cost reduction initiatives that are directly related to the COVID-19 pandemic, during the second quarter of 2020, the Company announced a number of business restructuring activities that were planned prior to the onset of the COVID-19 pandemic. The restructuring activities, which include the formation of a shared finance and back office service center, are being driven by a combination of staffing reductions across Badger's operating regions and staff functions and internal business improvement initiatives following the implementation and integration of the Company's new ERP. The conclusion of the successful ERP go lives in January 2020 has provided the basis for these initiatives. The shared services center, which is located at Badger's existing U.S. administrative center in Brownsburg, Indiana, will enhance the Company's customer support functions, while also providing improved internal administrative capabilities. As a result of headcount reductions and other related activities associated with the restructuring, the Company anticipates recognizing a non-recurring provision related to severance and other employee related costs of approximately \$4.0 million in the second quarter of 2020, of which \$2.4 million will be recognized as a component of G&A and \$1.6 million as a component of direct costs. Badger anticipates that the restructuring activities will generate annualized run rate savings of approximately \$10 million related to G&A and \$15 million related to direct costs, based on current staffing levels. As a result of concluding post ERP go live activities, cost reduction initiatives and business restructuring activities, Badger estimates that it will enter fiscal 2021 with an annualized G&A run rate of approximately \$40 million. See "General and Administrative Expenses" for additional details on G&A.

Long-term Business Outlook

Badger remains focused on generating profitable long-term sustainable growth to drive total shareholder returns. The long-term strategic financial and operational milestones, which are unchanged from those disclosed with the Company's 2019 fourth quarter earnings release, consist of:

- (i) double the U.S. business operations from fiscal 2019 levels over a period of 3 to 5 years;
- (ii) target annualized Adjusted EBITDA growth of 15% on average over a period of 3 to 5 years;
- (iii) target annualized Adjusted EBITDA margins of 28% to 29%; and
- (iv) target revenue per truck per month over \$30,000.

As disclosed on April 1, 2020, as a result of the ongoing disruptions to the North American economies and heightened uncertainties due to the COVID-19 pandemic, and the volatility in commodity markets, the Company withdrew its 2020 financial outlook for Adjusted EBITDA and hydrovac builds.

Results of Operations for the Three Months Ended March 31, 2020

Revenues

Revenues of \$136.7 million for the first quarter of 2020 were 7% lower than the \$146.6 million generated during the prior year comparative quarter. The decrease in revenue is attributable to the following:

- Revenue in the U.S. operations decreased by 5% to US\$79.0 million for the first quarter of 2020 compared to US\$83.5 million in the prior year comparative quarter. Items impacting first quarter revenues within the U.S. operations include:
 - Badger continued to realize revenue growth in many of its U.S. markets prior to the impact of COVID-19 as a result of increased activity levels from both new and existing customers across a number of its U.S. geographic and end use market segments. Badger continued to generate revenue growth in many of its U.S. markets as the benefits and potential uses for hydrovac technology continue to be understood and adopted by existing and new customers.
 - Revenue growth in a number of regions was lower than the prior year comparative quarter as a result of reduced customer demand due primarily to a combination of slower general activity levels combined with the impact of the wide-spread economic slowdown beginning in March 2020 as a result of the COVID-19 pandemic.
 - Hydrovac rates in the U.S. operations were consistent with the prior year across the majority of markets. It is currently not possible to assess the impact, if any, that COVID-19 may have on U.S. hydrovac rates for the remainder of 2020.
 - U.S. revenue converted to Canadian dollars was \$106.2 million in the first quarter of 2020, compared to \$111.0 million in the prior year comparative quarter, a 5% decrease. The weighted average foreign currency rate used in the translation of U.S. dollar revenues to Canadian dollars for the first quarter of 2020 was CDN\$1.35 to US\$1.00, compared to CDN\$1.33 to US\$1.00 in the prior year.
- Revenue in the Canadian operations for the first quarter of 2020 of \$30.5 million was \$5.1 million or 14% lower than the prior year comparative quarter with revenue of \$35.6 million. The decrease in revenue is due to reduced customer demand in Western Canada, driven by a slowdown in oil and gas activity, and the impact of COVID-19 which resulted in a wide-spread economic slowdown beginning in March 2020. Revenues in Eastern Canada were modestly higher compared to the prior year quarter due to a combination

of increased customer demand and improved operational performance, the impact of which more than offset the reduction in revenues realized in March 2020 as a result of the impact of COVID-19.

- Hydrovac rates in the Canadian operations were consistent with the prior year across the majority of markets. It is currently not possible to assess the impact, if any, that COVID-19 may have on Canadian hydrovac rates for the remainder of 2020.
- Other services revenue for the first quarter of 2020 was \$6.5 million, \$1.1 million higher than the \$5.4 million generated in the prior year comparative quarter. The increase in other services revenue was due to increased customer demand in Badger's non-hydrovac related service lines, including hydrovac ancillary and specialty unit related services, particularly in Badger's U.S. operations, the impact of which more than offset reduced demand in Western Canada.

Consolidated RPT for the first quarter of 2020 was \$24,966 compared to \$30,832 in the prior year comparative quarter. RPT in the U.S. operations in the first quarter of 2020 was US\$25,959 compared to US\$31,614 in the prior year comparative quarter, and for the Canadian operations was \$22,361 in the first quarter compared to \$28,910 in the prior year comparative quarter. The reduction in RPT in both the U.S. and Canadian operations was due to reduced customer activity levels, due in part, to a general slowdown in certain geographic locations, the impacted of reduced oil and gas activity, particularly in Western Canada, combined with the impact of a broader economic slowdown throughout March 2020 as a result of the COVID-19 pandemic. RPT was also impacted by growth in the hydrovac fleet. During the first quarter of 2020, Badger added 38 net new hydrovacs into its fleet; 161 net hydrovacs have been added to the fleet over the trailing twelve months.

In light of reduced economic activity as a result of the COVID-19 pandemic, Badger will continue to focus on optimizing its fleet in order to minimize the impact on its business. Badger is uniquely positioned to be able to respond to changes in regional customer service requirements due to its large hydrovac fleet and extensive branch network.

For additional information on RPT, refer to the definition under the "Key Financial Metrics and Other Operational Metrics" section.

Direct Costs

Direct costs for the first quarter of 2020 were \$106.4 million compared to \$104.1 million in the prior year comparative quarter. As a percentage of revenue, direct costs for the first quarter of 2020 of 77.8% were higher than the prior year comparative quarter of 71.0%.

Labour related costs as a percentage of revenue were higher than the prior year comparative quarter as a result of reduced revenues, combined with the impact of modestly higher headcount associated with operators and non-operator administrative support functions. Prior to the emergence and associated economic impacts of COVID-19, Badger was actively recruiting and training operators across its branch network in anticipation of both the seasonal increase inherent in the business combined with the overall growth in the business. In addition to the increase in costs associated with higher headcount, labour as a percentage of revenue was negatively impacted by reduced labour efficiency, driven, in part, by the impact of COVID-19. Non-operator labour included in direct costs, which includes functions such as environmental, health and safety and sales and marketing, were modestly higher than the prior year quarter on a percentage of revenue basis due primarily to reduced overall revenues. Costs related to fuel, insurance and repairs and maintenance were consistent with the prior year as a percentage of revenue.

Bad debt expense, which is included in direct costs, was \$1.0 million for the first quarter of 2020, compared to an expense of \$1.3 million in the prior year comparative quarter. The reduction in bad debt expense compared to the prior year quarter is due to lower overall revenues. Bad debt expense, as a percentage of revenue, was consistent with the prior year comparative quarter.

In light of the uncertainty created by the COVID-19 pandemic, combined with the implementation of ongoing business improvement initiatives, Badger continues to focus on active expense management and fleet optimization to mitigate the impact of reduced North American economic activity due to COVID-19. Over the past several years, Badger has made significant investments in its business, including the implementation of a new ERP and expanding its internal capabilities in areas such as human resources, recruitment, business development, fleet, information technology and health and safety activities. Investments in these areas of the business have resulted in increased scale within each of these functions and were essential to support the past and future increased activity levels. With the investments in these areas now completed, the Company will endeavour to capture the operational benefits of the increased scale while realizing a reduction in operating costs as a percentage of revenue.

Gross Profit

Gross profit for the first quarter of 2020 was \$30.3 million compared to \$42.6 million in the prior year comparative quarter, with a corresponding gross profit margin of 22.2% for the first quarter compared to 29.0% in the prior year comparative quarter. Gross profit margin in the U.S. operations was 22.2% for the first quarter of 2020, compared to 28.9% for the prior year comparative quarter, with gross profit margin in the Canadian operations of 22.0% for the first quarter of 2020 compared to 29.3% in the prior year comparative quarter.

Gross profit margins in the U.S. and Canadian operations were negatively impacted by the onset of COVID-19 which, as previously discussed, resulted in reduced labour efficiency and higher costs associated with non-operator support functions expressed as a percentage of revenue. As previously noted, average hydrovac rates were consistent across the majority of the U.S. and Canadian markets compared to the prior year comparative quarter, and as such, did not have a significant impact on gross profit.

General and Administrative Expenses

G&A for the first quarter of 2020 was \$12.1 million compared to \$9.3 million in the prior year comparative quarter. As a percentage of revenue, G&A was 8.9% in the first quarter of 2020, compared to 6.3% in the prior year comparative quarter. Consistent with fiscal 2019, the increase in G&A as a percentage of revenue, and on a total dollar basis, is primarily the result of costs directly and indirectly associated with the implementation of the ERP system, costs associated with maintaining certain components of the legacy system and certain activities being undertaken to augment the administrative infrastructure in order to support the overall growth in Badger's business. In particular, the increase in costs relate to activities directly and indirectly attributable to investments in technology, business process improvement initiatives combined with costs associated with the implementation of the ERP.

As previously disclosed, Badger's 2020 G&A is anticipated to be above historical levels due to the requirement to maintain certain, but necessary, temporary costs associated with the implementation of the ERP. These costs include items such as consulting, training and incremental spending on information technology to support the overall implementation. Throughout 2020, Badger will continue to prudently reduce temporary headcount and consulting costs with the objective of reducing its existing run rate for G&A. As previously noted, Badger has

already undertaken a number of business restructuring activities which are anticipated to result in annualized run rate G&A reductions of \$10 million, the benefit of which is anticipated throughout the second half of 2020.

Due to the ongoing uncertainty and the potential impact that COVID-19 may have on the business, it is not currently possible to provide an estimate or details on the 2020 annualized run rate of G&A as a percentage of revenue. As previously noted, as a result of cost reduction initiatives and business restructuring activities undertaken throughout 2020, Badger estimates that it will enter fiscal 2021 with an annualized G&A run rate of approximately \$40 million. The 2021 anticipated G&A run rate includes the benefit of cost reduction initiatives, offset in part, by approximately \$8 million of information technology related licensing fees associated with Badger's ERP that were eligible to be capitalized in fiscal 2018 and 2019 as part of the overall ERP implementation project. Badger continues to focus on achieving its long-term target of G&A being 4% of revenue.

As previously noted, Badger anticipates that G&A in the second quarter of 2020 will include approximately \$2.4 million in costs associated with internal business restructuring activities. See "Business Restructuring Activities" for additional details.

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

Depreciation and amortization expense was \$18.1 million for the first quarter of 2020 compared to \$14.7 million in the prior year comparative quarter. The increase in depreciation and amortization expense is the result of capital expenditures incurred during the previous four quarters.

Share-based Compensation Expense

Share-based compensation expense was a net recovery of \$9.0 million in the first quarter of 2020 compared to an expense of \$8.3 million in the prior year comparative quarter. The decrease in the expense is due to the decrease in the market value of Badger's common shares during the first quarter of 2020. Share-based compensation expense will fluctuate based on the effects of the movement in Badger's share price, combined with the impact of normal course vesting of previously issued long-term incentive plan grants and the issuance, if any, of new long-term incentive plan grants.

Gain or Loss on Sale of Property, Plant and Equipment

Gain or loss on the sale of property, plant and equipment for the first quarter of 2020 was nil compared to a gain of \$0.2 million in the prior year comparative quarter. Gains or losses on the sale of property, plant and equipment are the result of the proceeds on the disposal of general equipment and hydrovac units retired and disposed of being greater than or less than the residual book value. Gains or losses on the disposition of property, plant and equipment will vary depending on the timing and type of equipment being disposed of in a respective quarter.

Finance Cost

Finance costs, which consist primarily of interest on the Company's senior secured notes, syndicated revolving credit facility, standby fees on the syndicated revolving credit facility and finance costs associated with lease liabilities, were \$2.4 million for the first quarter of 2020, \$1.0 million higher than the prior year comparative quarter of \$1.4 million. The increase in finance costs were impacted by interest costs associated with debt obligations outstanding on the Company's syndicated revolving credit facility.

As at March 31, 2020, the Company's debt obligations, excluding the impact of normal course operating leases and outstanding letters of credit, consisted of \$191.5 million drawn on the Company's syndicated revolving credit facility, US\$50.0 million of senior secured notes and \$18.7 million in lease liabilities, all of which are further described herein.

Income Tax

Total income tax expense for the first quarter of 2020 was \$1.8 million compared to \$2.3 million in the prior year comparative quarter. Included in the first quarter of 2020 total income tax expense is a current income tax recovery of \$2.5 million and deferred income tax expense of \$4.3 million, compared to current income taxes of \$1.9 million and a deferred income tax expense of \$0.4 million in the prior year comparative quarter.

Current income tax recovery of \$2.5 million is comprised of a \$1.2 million U.S. current income tax recovery (Q1 2019 – \$3.8 million expenses) and a \$1.3 million Canadian current income tax recovery (Q1 2019 – \$1.9 million recovery). The change in U.S. and Canadian current income taxes is due to changes in underlying taxable income. In particular, the provision for U.S. income taxes benefitted from an increase in tax depreciation as a result of the accelerated amortization of hydrovacs placed into service in the first quarter of 2020.

Deferred income tax expense for the first quarter of 2020 was \$4.3 million compared to \$0.4 million in the prior year comparative quarter. The change in deferred income tax expense is due largely to U.S. bonus depreciation provisions which allow for the accelerated amortization of hydrovacs and other eligible capital put into service in the U.S.

Net Profit

Net profit for the first quarter of 2020 was \$5.1 million, consistent with the prior year comparative quarter with net profit of \$6.0 million. Net profit was impacted by lower revenues and gross profits, higher general and administrative expenses and higher depreciation and amortization, offset by reduced share-based compensation expense, all of which is fully described previously in this MD&A.

Other Comprehensive Income

Total other comprehensive income (loss) ("OCI"), which includes the effect of translating U.S. operations into Canadian dollars, and the offsetting translation of U.S. dollar denominated senior secured notes into Canadian dollars that are designated as a hedge of the U.S. operations, resulted in an OCI income of \$26.9 million for the first quarter of 2020 compared to loss of \$3.9 million in the prior year comparative quarter. The change in OCI for the first quarter of 2020 is the result of the U.S. dollar strengthening relative to the Canadian dollar throughout the quarter. OCI has no impact on Badger's cash flow from operations or Adjusted EBITDA.

Liquidity and Dividends

Cash flow from operating activities for the first quarter of 2020 was \$25.8 million, \$10.4 million lower than the prior year comparative quarter of \$36.2 million. Cash flow from operating activities was impacted by reduced gross profit and a corresponding reduction in Adjusted EBITDA. See the interim consolidated statement of cash flows contained within Badger's unaudited interim condensed consolidated financial statements for additional details. Cash flow from operating activities before non-cash working capital and other adjustments was \$18.2 million in the first quarter of 2020, \$14.4 million lower than the prior year comparative quarter of \$32.6 million. The reduction in cash flow from operating activities before non-cash working capital and other adjustments was due to the same factors as noted above for the reduction in cash flow from operating activities.

Working capital is a normal course component of Badger's business. Changes in working capital levels may result from increasing or decreasing revenue, the seasonality in the operations, the timing of the collection of receivables and the payment of payables, the timing of capital expenditures, and the impact of fluctuations in foreign currency exchange rates. Working capital totaled \$181.0 million as at March 31, 2020, compared to \$87.4 million as at December 31, 2019. The change in working capital as at March 31, 2020, was driven by an \$87.6 million increase in cash and cash equivalents. The increase in cash and cash equivalents was due to the Company determining that it was prudent to draw on its syndicated revolving credit facility in light of the potential for future volatility in financial markets as a result of the COVID-19 pandemic. As at May 7, 2020, the Company has not incurred, nor does it currently anticipate, any limitations in its ability to access liquidity under its various credit facilities.

The largest component of Badger's working capital is trade and other receivables. Trade and other receivables totaled \$176.9 million as at March 31, 2020, \$5.3 million lower than the balance as at December 31, 2019, of \$182.2 million. The decrease in trade receivables and other receivables is due to the normal course collection of trade receivables and the seasonal slowdown in Badger's business during the first quarter, offset in part, by the impact of a stronger U.S. dollar on the revaluation of U.S. denominated receivables. Included in total trade and other receivables at March 31, 2020, was \$5.0 million in accrued revenue compared to \$3.0 million at December 31, 2019. Accrued revenue at March 31, 2020, relates to services performed prior to March 31, 2020; accrued revenue is recognized when it meets the requirements of Badger's revenue recognition policy.

As at March 31, 2020, 71% of Badger's trade receivables were aged 90 days or less, compared to 80% at December 31, 2019. The reduction in the percentage of trade receivable aged 90 days or less was due to a combination of the normal course ageing of receivables and a slowdown in collections, due in part, to economic conditions as a result of the COVID-19 pandemic. The Company is actively managing its receivables portfolio, implementing supplemental credit and collections processes and procedures, including the overall management of the collections function, in order to maintain the timely collection of its receivables.

The Company uses its cash and cash equivalents to build additional hydrovac units, to fund day-to-day operations, pay dividends, repurchase common shares and for general corporate purposes. Badger assesses its need for general liquidity based on its cash flow from operating activities combined with the financial capacity available under its various credit facilities. Badger's access to liquidity, through a combination of cash flows from operating activities and its various credit facilities, is sufficient to meet the existing operational and capital expenditures of the business. Cash flows from operating activities are subject to variations and risks associated with the normal course operations of the business, including the impact of the seasonality within the business and the normal course timing and collection of working capital. See "Financing" for a summary of the key terms, conditions and unutilized capacity of the Company's various credit facilities.

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

Capital Resources

Investing

Badger invested \$20.9 million in total capital expenditures for the first quarter in 2020, compared to \$21.7 million in the prior year comparative quarter. The majority of capital expenditures during the first quarter of 2020 related to the production of hydrovacs.

As disclosed on April 1, 2020, in response to the COVID-19 pandemic, Badger is curtailing the production of hydrovacs. Hydrovacs that were in production prior to April 1, 2020 will be completed in the normal course; in addition, the Company intends to manufacture a small number of specialty units throughout 2020.

For the first quarter of 2020, Badger completed 58 hydrovacs, compared to 37 hydrovacs in the first quarter of 2019.

Capital Expenditures

(\$ thousands)	Three months ended March 31,	
	2020	2019
Hydrovac completed units and work-in-progress ⁽¹⁾⁽²⁾	20,367	20,209
Other vehicles and trailers	27	295
Buildings	417	-
Other	-	71
Total expenditures of property, plant and equipment	20,811	20,575
Upfront payments for right-of-use assets ⁽³⁾	88	1,170
Total capital expenditures	20,899	21,745

⁽¹⁾ Total work-in-progress ("WIP"), including chassis and WIP on other vehicles, recognized on Badger's balance sheet as at March 31, 2020, and 2019, was \$16.4 million and \$14.8 million, respectively. The net change in WIP for the three months ended March 31, 2020 was a cash inflow of \$5.1 million and for the three months ended March 31, 2019 was a net outflow of \$2.9 million. The net change in WIP is included in hydrovac completed units and work-in-progress in the above table.

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

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

Finished hydrovacs, and the related total cost included in the summary of capital expenditures, includes the cost to manufacture a hydrovac plus additional non-refundable sales taxes, excise taxes and costs to place the unit into service, such as shipping. Certain of these costs are dependent on the region where the hydrovac is placed into services.

The cost to build a hydrovac will fluctuate on an annual basis due to factors such as: the number of hydrovac units built; the costs of chassis, labour and material costs; and, the impact of foreign currency rates as many materials are denominated or otherwise influenced by foreign currency exchange rates. For a summary of the historical average annual hydrovac manufacturing cost, refer to the Company's 2019 annual MD&A.

Financing

Syndicated Revolving Credit Facility

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

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

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

As at March 31, 2020, the Company had \$191.5 million outstanding on its syndicated revolving credit facility (December 31, 2019 – \$67.2 million) and had issued letters of credit of \$4.8 million (December 31, 2019 - \$4.4 million). The outstanding letters of credit, which reduce the amount of available credit under the facility, support the U.S. insurance program and certain other performance bonds. As at March 31, 2020, the Company had available \$103.7 million (December 31, 2019 - \$228.4 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Supplemental Credit Facility

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

As at May 7, 2020, the Company has approximately \$100 million of cash and cash equivalents and has access to over \$200 million of borrowing capacity under its committed credit facilities in respect of which all conditions precedent had been met.

Senior Secured Notes

On January 24, 2014, Badger closed a private placement of senior secured notes with an original principal of US\$75.0 million. The notes, which rank pari passu with the Credit Facility, have a current principal amount outstanding of US\$50.0 million (\$70.9 million Canadian equivalent as at March 31, 2020) and an interest rate of 4.83% per annum and mature on January 24, 2022. A repayment of US\$25.0 million, as required under the terms of the notes, was completed on January 24, 2020, utilizing the Company's syndicated revolving credit facility. The remaining amortizing principal repayments of US\$25.0 million are due under the notes on January 24, 2021, and January 24, 2022. Interest is paid semi-annually in arrears. The Canadian dollar equivalent on January 24, 2014, was \$82.9 million.

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

Lease Liability

As at March 31, 2020, the Company had \$18.6 million in lease liabilities (December 31, 2019 – \$17.2 million) related primarily to operating and administrative building lease arrangements. There is no lease liability associated with the Company's light-duty vehicle leases as the full consideration of the underlying lease is paid at the inception of the lease.

Compliance

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

Select Financial covenants ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	March 31, 2020	December 31, 2019	Threshold
Total Debt to Compliance EBITDA Credit Facility	1.7:1	1.2:1	4.00:1 max
Total Debt to Compliance EBITDA Senior Secured Notes	1.8:1	1.2:1	2.75:1 max
Interest Coverage Ratio Credit Facility	17.9:1	21.6:1	3.00:1 min
Interest Coverage Ratio Senior Secured Notes	18.9:1	21.2:1	3.00:1 min
Tangible Net Worth	\$271.7 million	\$275.7 million	\$200.3 million

(1) See "Non-IFRS Financial Measures" for additional details on the calculation of Total Debt, Compliance EBITDA and Tangible Net Worth.

(2) Total Debt to Compliance EBITDA Credit Facility as at March 31, 2020, calculated as \$235.9 million in Total Debt divided by \$141.8 million of Compliance EBITDA and for December 31, 2019, calculated as \$177.3 million in Total Debt divided by \$149.1 million of Compliance EBITDA.

(3) Total Debt to Compliance EBITDA senior secured notes as at March 31, 2020, calculated as \$275.9 million in Total Debt divided by \$149.5 million of Compliance EBITDA and for December 31, 2019, calculated as \$177.3 million in Funded Debt divided by \$149.1 million of Compliance EBITDA.

(4) The Interest Coverage Ratio Credit Facility is calculated as Compliance EBITDA divided by interest expense. For the twelve months ended March 31, 2020, calculated as \$141.8 million in Compliance EBITDA divided by \$7.9 million in interest expense and for the twelve months ended December 31, 2019, calculated as \$149.1 million in Compliance EBITDA divided by \$6.9 million in interest expense. Interest expense is calculated in accordance with IFRS on a trailing 12-month basis.

(5) The Interest Coverage Ratio senior secured notes is calculated as Compliance EBITDA divided by interest expense. For the twelve months ended March 31, 2020, calculated as \$149.5 million in Compliance EBITDA divided by \$7.9 million in interest expense and for the twelve months ended December 31, 2019, calculated as \$146.6 million in Compliance EBITDA divided by \$6.9 million in interest expense. Interest expense is calculated in accordance with IFRS on a trailing 12-month basis.

Throughout the first quarter of 2020, and as at March 31, 2020, the Company was in compliance with the above noted covenants and all other covenants. For additional details on the syndicated revolving credit facility and the senior secured notes, including the financial and non-financial covenants, see the Company's 2019 audited consolidated financial statements and the Company's 2019 Annual Information Form.

Off-Balance Sheet Arrangements

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

Share Capital

As at March 31, 2020, the number of common shares outstanding was 34,853,838 (December 31, 2019 – 34,933,738). The weighted average common shares outstanding for the three months ended March 31, 2020, was 34,892,213 (December 31, 2019 – 35,825,820).

As at May 7, 2020, the number of common shares outstanding was 34,853,838. Badger does not currently have any material financial instruments which can be converted into additional common shares.

See the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2020, and "Normal Course Issuer Bid" for additional details on changes to share capital.

Normal Course Issuer Bid

On May 13, 2019, the Board of Directors approved the Company to enter into a NCIB program of up to 2,000,000 common shares upon the expiration of the previous NCIB on May 14, 2019. On May 16, 2019, the Toronto Stock Exchange accepted the notice filed by the Company to implement an updated NCIB program. The Company may acquire up to 2,000,000 common shares during the period commencing on May 21, 2019, and ending May 20, 2020, or such earlier date on which the Company completes its purchases of common shares under the NCIB, or terminates the NCIB at its option.

The Company believes that from time-to-time, the market price of its common shares may not fully reflect the underlying value of its business, and that purchases of common shares for cancellation under the NCIB may provide an opportunity to enhance long-term total shareholder returns.

For the three months ended March 31, 2020, pursuant to the NCIB, the Company purchased and cancelled 69,900 common shares at a weighted average price per share of \$29.72. On a cumulative basis, since May 21, 2019 to the period ended March 31, 2020, the Company has purchased and cancelled 1,025,600 common shares at a weighted average price per share of \$41.40 under the current NCIB. On a cumulative basis, since the fourth quarter of 2018 to the period ended March 31, 2020, the Company has purchased and cancelled 2,287,668 common shares at a weighted average price per share of \$36.61.

The existing NCIB program will expire on May 20, 2020. The Board of Directors does not intend to renew the program at this time; and believes that not renewing the NCIB is prudent given the degree of uncertainty in the economy and financial markets.

Contractual Obligations

Refer to the Company's unaudited interim condensed consolidated financial statements for disclosure related to contractual obligations. The company anticipates using its cash and cash equivalents, in addition to the financial capacity available under its various credit facilities, to fund its contractual obligations.

Fair values

The Company's financial instruments recognized on the consolidated statements of financial position consist of cash and cash equivalents, trade and other receivables, income taxes receivable, trade and other payables, dividends payable, income taxes payable, borrowings under credit facility, current and long-term lease liabilities, and current and long-term debt. The fair values of these recognized financial instruments, excluding long-term debt, approximate their carrying value due to their short-term maturity. The carrying value of the Company's credit facility and lease liabilities approximate fair value because these liabilities utilize floating and/or market based interest rates. The fair value of the Company's senior secured notes are disclosed in the 2020 first quarter unaudited interim condensed consolidated financial statements.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash flows from financial assets on hand at the balance sheet date. A substantial portion of the Company's trade receivables are with customers in the utility, petroleum and construction industries and are subject to industry credit risks. The Company manages its exposure to credit risk through standard credit granting procedures and payment terms. The Company attempts to monitor the financial conditions of its customers and the industries in which they operate.

Liquidity risk

Liquidity risk is the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle an obligation on the due date and will be forced to sell financial assets at a price less than what they are worth, or will be unable to settle or recover a financial asset.

The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the Company raising capital by issuing equity or obtaining additional debt financing. The Company also mitigates liquidity risk by maintaining a credit facility and an insurance program to minimize exposure to insurable losses.

Market risk

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

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on a portion of its long-term debt whose rate is floating. Interest is calculated based on prime lending rates, banker's acceptance rates or the London interbank offered rate and is dependent on the nature of the borrowing. Interest rates are subject to change. As at March 31, 2020, the Company had \$191.5 million drawn on its syndicated revolving term credit facility which is subject to a floating interest rate. The Company does not use interest rate hedges, fixed interest rate contracts or other similar derivative instruments to manage its exposure to interest rate fluctuations, but has issued fixed rate senior secured notes (US\$50.0 million outstanding as at March 31, 2020) which fixes interest exposure on a portion of the Company's total debt obligations.

Foreign exchange risk

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

Selected Quarterly Financial Information

(\$ thousands, except per share amounts)	2020 Q1	2019				2018		
		Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	136,678	162,715	183,743	161,210	146,614	178,609	168,712	147,550
Net profit	5,068	15,913	25,839	11,949	6,031	23,468	25,689	10,586
Net profit per share, basic and diluted (\$)	\$0.15	\$0.45	\$0.73	\$0.33	\$0.16	\$0.63	\$0.69	\$0.29
Dividends paid	4,972	5,001	5,067	5,112	4,885	5,009	5,009	4,749
Dividends per share, basic and diluted (\$)	\$0.145	\$0.140	\$0.140	\$0.140	\$0.135	\$0.135	\$0.135	\$0.128

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

- General changes in economic growth and overall macro-economic conditions in both the U.S. and Canada;
- Increased usage and demand for Badger's hydrovac services, particularly in the U.S., which is Badger's largest market. The increase in customer demand has resulted in an increase in revenues, gross dollar direct costs, general and administrative expenses and Adjusted EBITDA;
- The impact of COVID-19, effective March 2020, related to customer demand and general economic activity levels, including business restructuring and cost reduction initiatives and the curtailment of hydrovac truck production;
- The seasonality within Badger's business as a result of the seasonal upswing in construction activity, the impact of which will typically result in higher activity levels in the second, third and fourth quarters, with reduced activity levels in the first quarter due to the normal course slowdown in certain northern markets during the winter construction season;
- Impact of unusual and/or non-typical weather conditions such as natural disasters, general precipitation levels or extreme winter weather conditions which may impact the timing and level of customer demand;
- Timing of customer emergency response services due to natural disasters;
- Additional investments related to the manufacture of hydrovac units and an increase in working capital requirements associated with the underlying growth in the business;
- The execution and implementation of Badger's Common Business Platform/ERP project;
- Finalization of income tax benefits associated with transfer pricing activities for the 2009 through 2013 taxation years in the second quarter of 2018; and
- Updated U.S. income tax legislation, effective December 22, 2017, which had a one-time impact on Badger's 2018 current income tax expense.

Key Financial Metrics and Other Operational Metrics

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

Revenue per truck per month – United States

	Three months ended March 31,	
	2020	2019
Total revenue	106,222	110,996
Less: Other revenue	1,574	658
Hydrovac revenue	104,648	110,338
Foreign exchange rate ⁽¹⁾	1.3451	1.3296
Hydrovac revenue - U.S. equivalent	77,799	82,986
Average hydrovacs ⁽²⁾	999	875
RPT (U.S. dollars) ⁽³⁾	25,959	31,614

Revenue per truck per month – Canada

	Three months ended March 31,	
	2020	2019
Total revenue	30,456	35,618
Less: Other revenue	4,897	4,742
Hydrovac revenue	25,559	30,876
Average hydrovacs ⁽²⁾	381	356
RPT ⁽³⁾	22,361	28,910

Revenue per truck per month – Consolidated (mixed currency)

	Three months ended March 31,	
	2020	2019
Hydrovac revenue - U.S.	77,799	82,986
Hydrovac revenue - Canada	25,559	30,876
Total hydrovac revenue	103,358	113,862
Average hydrovacs ⁽²⁾	1,380	1,231
RPT ⁽³⁾	24,966	30,832

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

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

⁽³⁾ Revenue per truck per month is calculated by taking hydrovac revenue divided by the number of average trucks for the period and further divided by the number of months in the respective period, being three months for a quarter and twelve months for an annual period.

Fleet Summaries

Number of hydrovacs at period end

	2020	2019				2018		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Canada	382	380	371	366	357	355	356	363
U.S.	1,017	981	949	922	884	866	851	827
	1,399	1,361	1,320	1,288	1,241	1,221	1,207	1,190
Hydrovac operator training center ⁽¹⁾	3	3	3	2	-	-	-	-
Total	1,402	1,364	1,323	1,290	1,241	1,221	1,207	1,190

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

Average number of hydrovacs during the period ⁽¹⁾

	2020	2019					2018			
	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2
Canada	381	367	376	369	362	356	359	356	360	366
U.S.	999	924	965	936	903	875	807	859	839	807
Total	1,380	1,291	1,341	1,305	1,265	1,231	1,166	1,215	1,199	1,173

⁽¹⁾ The average number of hydrovacs during the period is calculated using a simple average between the opening number of hydrovacs during the period and the closing number of hydrovacs during the period.

Marketing and Franchise Agreements

Number of Marketing and Franchise Agreements	2020	2019				2018		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Canada	15 ⁽⁶⁾	14	14 ⁽⁴⁾	11 ⁽³⁾	10 ⁽²⁾	9	9	9 ⁽¹⁾
U.S.	2 ⁽⁷⁾	3	3 ⁽⁵⁾	4	4	4	4	4

⁽¹⁾ Badger purchased the assets of an operating partner to facilitate the operating partner's exit from the business.

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

⁽³⁾ A new Canadian based operating partner agreement was executed during the second quarter of 2019.

⁽⁴⁾ Three new Canadian based operating partner agreements were executed during the third quarter of 2019.

⁽⁵⁾ Badger purchased the assets of a U.S. based franchisee to facilitate the franchisee's exit from the business.

⁽⁶⁾ A new Canadian based operating partner agreement was executed during the first quarter of 2020.

⁽⁷⁾ A U.S. based franchise agreement was terminated in the first quarter of 2020.

Foreign Exchange Rates

1 USD:CAD	2020	2019					2018			
	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2
Period weighted average ⁽¹⁾	1.3451	1.3267	1.3201	1.3208	1.3374	1.3296	1.2992	1.3191	1.3068	1.2917
Period end	1.4187	1.2988	1.2988	1.3243	1.3087	1.3363	1.3642	1.3642	1.2945	1.3168

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

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

Non-IFRS Financial Measures

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

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

Adjusted EBITDA is calculated as follows:

(\$ thousands)	Three months ended March 31,	
Adjusted EBITDA	2020	2019
Net profit	5,068	6,031
Add:		
Depreciation and amortization	18,096	14,675
Share-based compensation expense	(9,048)	8,300
Loss (gain) on sale of property, plant and equipment	39	(208)
Finance cost	2,379	1,444
Foreign exchange loss (gain)	(165)	693
Income tax expense	1,770	2,339
Adjusted EBITDA	18,139	33,274

Adjusted EBITDA can also be calculated as follows:

(\$ thousands)	Three months ended March 31,	
Adjusted EBITDA	2020	2019
Revenue	136,678	146,614
Less:		
Direct costs	106,399	104,052
General and administrative expense	12,140	9,288
Adjusted EBITDA	18,139	33,274

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

Adjusted EBITDA margin is calculated as follows:

(\$ thousands except for percentages)	Three months ended March 31,	
Adjusted EBITDA margin	2020	2019
Adjusted EBITDA	18,139	33,274
Revenue	136,678	146,614
Adjusted EBITDA margin	13.3%	22.7%

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

Compliance EBITDA is calculated as follows:

(\$ thousands)	Twelve months ended March 31,	
Compliance EBITDA	2020	2019
Net profit	58,769	65,774
Add:		
Depreciation and amortization	66,945	51,971
Finance cost	7,852	5,088
Income tax expense	15,897	29,148
Compliance EBITDA – for purposes of senior secured notes	149,463	151,981
Add:		
Foreign currency revaluations	(225)	-
Loss on sale of property, plant and equipment	302	-
Share-based payments	(7,710)	-
Compliance EBITDA – for purposes of Credit Facility ⁽¹⁾	141,830	151,981

⁽¹⁾ The calculation of Compliance EBITDA for purposes of the Credit Facility for the twelve months ended March 31, 2020, is in accordance with the requirements of the updated Credit Facility which was executed on September 30, 2019.

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

Funded Debt is calculated as follows:

(\$ thousands)	March 31, 2020	December 31, 2019
Total Debt		
Long-term debt	35,468	64,940
Current portion of long-term debt	35,468	32,470
Borrowings under credit facility	191,468	67,157
Lease liability ⁽¹⁾	12,729	11,442
Current portion of lease liability	5,940	5,709
Total obligations	281,073	181,718
Add: issued letters of credit	4,801	4,401
Less: cash on hand up to \$10.0 million ⁽¹⁾	(10,000)	(8,801)
Total Debt – for purposes of senior secured notes	275,874	177,318
Less: cash on hand greater than \$10.0 million up to \$50.0 million ⁽¹⁾	(40,000)	-
Total Debt – for purposes of Credit Facility ⁽²⁾	235,874	177,318

⁽¹⁾ Badger may deduct certain cash on hand in the calculation of Total Debt in accordance with the requirements of its credit facilities. Effective September 30, 2019, the Credit Facility allows for the deduction of up to \$50.0 million of cash on hand with the senior secured note facility allowing for the deduction of up to \$10.0 million of cash on hand.

⁽²⁾ The calculation of Total Debt for purposes of the Credit Facility for the period ended September 30, 2019, is in accordance with the requirements of the updated Credit Facility which was executed on September 30, 2019.

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

Tangible Net Worth is calculated as follows:

(\$ thousands)	March 31, 2020	December 31, 2019
Tangible Net Worth		
Shareholders equity	355,513	330,671
Less: accumulated other comprehensive income subsequent to September 30, 2013 adjusted for certain impairments	(49,870)	(22,963)
Less: intangible assets and goodwill	(33,914)	(32,018)
Tangible Net Worth	271,729	275,690

Critical Accounting Policies and Estimates

The Company's significant accounting policies are set out in Note 4 of the 2019 audited annual consolidated financial statements. Additionally refer to the Company's unaudited interim condensed consolidated financial statements for details on accounting policy changes adopted by the Company on, or after, December 31, 2019. Certain of these accounting policies, as well as estimates made by management in applying such policies, are recognized as critical because they require management to make subjective or complex judgements about matters that are inherently uncertain. The Company's critical accounting estimates, as detailed in the 2019 annual MD&A relate to: useful lives of property, plant and equipment; depreciation; income taxes; allowance for doubtful accounts; determining cash generating units; impairment of non-financial assets; intangible assets; goodwill; and functional currency.

In the preparation of the Company's unaudited interim condensed consolidated financial statements, management has made judgments, estimates and assumptions that affect the recorded amounts of revenues, expenses, assets, liabilities and the disclosure of commitments, contingencies and guarantees. Estimates and judgements used are based on management's experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the condensed unaudited interim consolidated financial statements are prepared. Actual results could differ from these estimates. The most significant estimates and judgments used in the preparation of the Company's unaudited interim condensed consolidated financial statements have been set out in Note 3 of the Company's 2019 audited annual consolidated financial statements.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

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

Changes in Internal Control over Financial Reporting

There were no changes to Badger's internal control over financial reporting in the first quarter of 2020.

Inherent Limitations

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

Risk Factors

A comprehensive listing of the Company's risk factors is set out in the Company's 2019 Annual Information Form under the heading "Risk Factors". This section does not describe all risks applicable to the Company, its industry or its business, and is intended only as a summary of certain material risks. If any of such risk or uncertainties actually occurs, the Company's business, financial condition or operating results could be harmed substantially and could differ materially from the plans and other forward-looking statements discussed in this MD&A.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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

In particular, forward-looking information and statements in this MD&A include, but are not limited to the following:

- The anticipated annualized cost savings resulting from reductions in executive officer, director, and operations and administrative compensation, as well as layoffs of operational support and administrative personnel;
- The anticipated \$4.0 million non-recurring provision related to severance and other employee related costs in the second quarter of 2020, of which \$2.4 million will be recognized as a component of G&A and \$1.6 million will be recognized as a component of direct costs;
- The annualized run rate savings of approximately \$10 million related to G&A and \$15 million related to direct costs generated by anticipated restructuring activities;
- Badger's expectations for 2020 G&A expenses and its ability to reduce its existing G&A run rate through restructuring activities, including reducing headcount and consulting costs;
- The fiscal 2021 annualized run rate of G&A of approximately \$40 million which includes the benefit of certain restructuring activities and approximately \$8 million of information technology related licensing fees;
- Badger's long-term G&A target and its ability to achieve such target through business restructuring activities;
- Badger does not anticipate any limitations in its ability to access liquidity under its various credit facilities;
- Badger intends to manufacture a small number of specialty units throughout 2020;
- Badger expects the reduction in demand for services as a result of COVID-19 to continue until the overall North American economy stabilizes;
- Badger intends to participate in all applicable government programs for employees, as well as at the corporate level;
- Badger continues to maintain a strong financial position and focus on the execution of strategic pricing initiatives, optimizing its fleet and expense management in order to minimize the impact of the COVID-19 pandemic on its business;

- The anticipated effects of the shared services center, including enhancing Badger's customer support functions and improving internal administrative capabilities;
- The timing, and the impact on the business, if any, of achieving Badger's long-term strategic financial and operational milestones; and
- The benefits, if any, that Badger's operational scale creates relative to financial and operating performance.

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

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

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

Readers are cautioned that the foregoing factors are not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results is included in reports on file with securities regulatory authorities in Canada and may be accessed through the SEDAR website (www.sedar.com) or at the Company's website. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.