Management’s Discussion and Analysis

The following Management’s Discussion and Analysis (MD&A) should be read in conjunction with the audited consolidated financial statements and related notes of Badger Daylighting Ltd. (the “Company” or “Badger”) for the year ended December 31, 2012. The audited consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). Readers should also refer to the Annual Information Form for the year ended December 31, 2012, which along with further information relating to Badger may be found on SEDAR at *www.sedar.com*.

This MD&A has been prepared taking into consideration information available to March 15, 2013.

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 include discussion concerning:

- That internal preparations for anticipated growth in 2013 will be completed;
- That as long as overall activity in the economy and the oil and natural gas industry remains essentially constant, Badger will be able to continue to grow the business in 2013;
- That Badger in 2013 can further develop the organization to position itself to be able to handle the planned future growth;
- That the new locations opened in the United States will provide an increased contribution to cash flows from operations and net profit during 2013;
- That the current business development initiative will provide Badger with the additional new customers necessary to grow the business in 2013 and the future;
- That Eastern Canada will continue with steady growth, driven by activity levels in the utility and construction segments that are forecast to be stable in 2013;
- That there will be an increase in Western Canada revenue during 2013 due to anticipated project volume and spending in the oil and natural gas sector;

- That an increase in Company capital will be required to finance the anticipated capital expenditure program; and,
- That the extendable revolving credit facility will be renewed and fully available during 2013 for an additional 364-day period.

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

- Badger has the ability to achieve its internal revenue, net profit and cash flow forecasts for 2013;
- There will be long-term demand for hydrovac services from oil refineries, petro-chemical plants, power plants and other large industrial facilities throughout North America;
- Badger will maintain relationships with current customers and develop successful relationships with new customers;
- The Company will collect customer obligations in a timely manner; and
- Badger will execute its growth strategy.

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; 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.

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 corporations or entities. These financial measures are identified and defined below:

"Cash available for growth and dividends" is used by management to supplement cash flow as a measure of operating performance and leverage. The objective of this measure is to calculate the amount of cash available for growth and/or dividends to shareholders. It is defined as funds generated from operations less required debt repayments and maintenance capital expenditures, plus any proceeds received on the disposal of assets.

"EBITDA" is earnings before interest, taxes, depreciation and amortization and is a measure of the Company's operating profitability and is therefore useful to management and investors. EBITDA provides an indication of the results generated by the Company's principal business activities prior to how these activities are financed, assets are amortized or the results are taxed in various jurisdictions. EBITDA is calculated from the consolidated statement of comprehensive income as gross profit less selling, general and administrative costs. It is calculated as follows:

	Three months ended December 31,		Year ended December 31,	
$	2012	2011	2012	2011
Gross profit	22,086,654	20,199,195	75,555,298	64,779,472
Selling, general and administrative costs	(4,053,391)	(3,912,611)	(14,060,502)	(11,974,119)
EBITDA	18,033,263	16,286,584	61,494,796	52,805,353

"Funded debt" is a measure of Badger's long-term debt position. Funded debt is long-term debt.

"Funds generated from operations" is used to assist management and investors in analyzing operating performance and leverage. It is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net profit or other measures of financial performance calculated in accordance with IFRS. Funds generated from operations are derived from the consolidated statement of cash flows and is calculated as follows:

	Three months ended December 31,		Year ended December 31,	
$	2012	2011	2012	2011
Cash provided by operating activities	13,193,282	15,437,743	46,200,783	33,469,398
Add (deduct):				
Net change in non-cash working capital relating to operating activities	2,427,846	(1,714,802)	4,655,475	10,313,247
Equity-settled share plan settled in cash	-	-	655,316	2,191,648
Funds generated from operations	15,621,128	13,722,941	51,511,574	45,974,293

"Growth capital expenditures" are capital expenditures that are intended to improve Badger's efficiency, productivity or overall capacity and thereby allow Badger to access new markets. They generally represent any net additions to the daylighting fleet. Growth capital expenditures exclude acquisitions.

"Maintenance capital expenditures" are any amounts incurred during a reporting period to keep the Company's daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the capacities of the existing business. They also include any costs incurred to extend the operational life of a daylighting unit. This amount will fluctuate from period-to-period depending on the number of units retired from the fleet.

"Net debt" is funded debt less cash and cash equivalents.

Cash available for growth and dividends, EBITDA, funded debt, funds generated from operations, growth capital expenditures, maintenance capital expenditures and net debt throughout this document have the meanings set out above.

FINANCIAL HIGHLIGHTS

($ thousands, except per share and total shares outstanding information)

	Three months ended December 31, 2012	**Three months ended December 31, 2011**	**Year ended December 31, 2012**	**Year ended December 31, 2011**
Revenues	69,249	56,549	239,229	194,178
EBITDA	18,033	16,287	61,495	52,805
Profit before tax	12,841	11,925	42,008	35,813
Income tax expense				
Current	2,546	2,019	7,945	5,158
Deferred	2,407	1,201	6,013	4,852
Net profit	7,888	8,705	28,050	25,803
Profit per share – diluted ($)	0.69	0.80	2.41	2.38
Funds generated from operations	15,621	13,723	51,512	45,974
Funds generated from operations per share – diluted ($)	1.26	1.27	4.42	4.24
Maintenance capital expenditures	1,089	1,135	3,670	2,037
Required long-term debt repayments	-	-	-	3,259
Cash available for growth and dividends	14,611	12,553	48,053	40,810
Dividends declared	3,267	2,757	12,058	11,030
Growth capital expenditures	13,768	11,307	50,423	35,194
Total shares outstanding (end of the period)	12,326,631	10,813,631	12,326,631	10,813,631

OVERVIEW

Highlights for the year ended December 31, 2012 are as follows:

- Revenues increased by 23 percent to $239.2 million in 2012 from $194.2 million in 2011, while EBITDA increased by 16 percent to $61.5 million in 2012 from $52.8 million in 2011.
- Cash available for growth and dividends increased by 18 percent to $48.1 million in 2012 from $40.8 million in 2011, due to increased funds generated from operations and no required debt repayments.
- In June 2012, Badger completed an equity financing for gross proceeds of $37.5 million through the issuance of 1,500,000 common shares at a price of $25.00 per share.
- Net debt decreased to $27.3 million at December 31, 2012 from $43.9 million at December 31, 2011 due to the funds received on closing the equity financing in June 2012.
- The Company renewed its extendable revolving credit facility in June 2012. At the request of Badger the maximum principal was reduced from $60 million to $55 million.
- The Company added 131 new hydrovac units and removed five from service, exiting the year with 630 hydrovac units. Of the total, 307 units were operating in Canada and 323 in the United States at year-end. They were financed from cash generated from operations, existing credit facilities and the equity financing.
- Effective November 2012 Badger's Board of Directors approved a one-half-cent increase to the monthly dividend, increasing the total amount by 6 percent, from 8.5 cents to 9 cents per month.

Selected Annual Financial Information

	Year ended December 31,		
($)	**2012**	**2011**	**2010**
Revenues	239,228,701	194,178,089	139,610,783
Net profit	28,049,759	25,803,156	19,633,096
Net profit per share – basic	2.41	2.39	1.82
Net profit per share – diluted	2.41	2.38	1.81
Total assets (end of year)	225,582,408	183,866,809	151,196,167
Total long-term debt [(1)] (end of year)	29,773,229	46,554,454	40,671,395
Distributions/dividends declared	12,057,659	11,029,907	13,618,878

(1) Includes the current portion of long-term debt.

OUTLOOK

2012 was a good year for Badger in terms of results for the fiscal year and for investments made to generate future growth. The United States generated strong revenue growth during the year through the addition of 11 new locations, adding 64 new hydrovac units and as a result of increased business development. Gross margins were slightly reduced in the United States due to inefficiencies caused by rapid growth and also investments in personnel for the future. In Canada the Company also generated strong revenue growth in a market that is more mature than the United States. Again margins were slightly reduced due to Western Canada generating reduced margins and investments made in Eastern Canada to ready the organization for future growth. Western Canada in 2011 had delivered a great year with above average margins and very good operational efficiencies. In 2012 the market was a bit tougher in the fall and Badger invested in various operational expenses in preparation for even higher revenue. The region did generate higher revenue but not to the level expected when the investments were made. It should be noted that while 2012 had lower margins than 2011, it was still a good year for Badger in Western Canada. The manufacturing group built an additional 131 hydrovac units in 2012, which was a very satisfying milestone and Badger's largest one-year build ever, which is very positive for the future. If the overall economy in North America and the oil and natural gas industry remain relatively stable, Badger will continue its growth and deliver good results in 2013.

Major initiatives in 2013 will consist of:

1. Further develop the organization to continue to grow the existing business. In the United States Badger intends to add personnel which will add current costs, but position the organization for future returns. This will continue to dampen margins in the United States in the short term, but as the organization develops, margins should improve.

2. Continue with the business development initiative launched in 2012 to ensure new customers are constantly being added. Badger has an internal goal to double its United States customer base over the next couple of years.

3. In 2012 Badger commenced an initiative to streamline its administration system through the use of electronic forms and systems to transfer data from the field to Badger and the Company's customers. Badger is behind schedule on this initiative but early indications show that it will be worth the commitment of time and resources.

4. Add new locations in market areas where there is good future potential. These investments are necessary to help grow the business.

5. Badger is currently building about three trucks per week in its Red Deer, Alberta manufacturing facility. This will continue as long as there is a market demand for new hydrovac units from Badger's various operational areas. Badger expects to retire approximately 15 to 25 hydrovac units from the fleet in 2013.

Regional outlook:

1. Badger's Western Canada business is showing a good deal of strength in early 2013. There is, however, some uncertainty in the overall market due to concerns over the mild winter perhaps causing an early spring break-up, plus some pressure on the oil industry due to pricing differentials. Notwithstanding the above, Badger is expecting another good year in Western Canada.

2. Eastern Canada has been and should continue to be a steady, moderate growth area for Badger. The expectations for 2013 will be the same.

3. The United States offers Badger large market potential. Currently Badger has only slightly more hydrovac units in the United States than Canada. The United States economy being many times the size of Canada's creates lots of growth potential. Badger will continue to develop this market, add more locations and further develop the organization to take advantage of this opportunity.

Badger is pleased with the 2012 results. There, as always, were certain items the Company would like to have done better but overall a strong year. Badger intends to further build on this success in 2013 while remaining flexible to take advantage of opportunities as they present themselves.

OVERALL PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 2012 COMPARED TO THE YEAR ENDED DECEMBER 31, 2011

Results of Operations

Revenues

Revenues were $239.2 million for the year ended December 31, 2012 compared to $194.2 million for the year ended December 31, 2011. The increase is attributable to the following:

- Canadian revenues increased by 17 percent from $111.0 million in 2011 to $129.3 million in 2012. Western Canada hydrovac revenue increased due to increased demand for hydrovac services in various areas generated by higher activity in the oil and natural gas industry, plus the addition of two new areas. Eastern Canada revenue remained almost unchanged; and

- United States revenue grew from $83.2 million in 2011 to $110.0 million in 2012. Removing the effect of foreign exchange rate changes, revenues increased by 31 percent year-over-year. The increase is due to more work in the United States generated by new locations added over the last couple of years and positive results from business development.

Badger's average revenue per truck per month was $32,900 for 2012 versus $32,500 for 2011. The increase is due to a focused business development effort, more mature United States locations and additional customers.

Direct Costs

Direct costs for 2012 were $163.7 million compared to $129.4 million for 2011. The increase of 26 percent is greater than the revenue growth of 23 percent due to increased costs in Western Canada not being matched by revenue growth over 2011. It was, however, still a good year. Costs in the United States increased due to growth investments and some operational inefficiency.

Gross Profit

The gross profit percentage was 31.6 percent for 2012, a decrease from the 33.4 percent generated in 2011. The Canadian gross profit percentage decreased from 38.7 percent for 2011 to 36.4 percent for 2012 as a result of higher costs in Western Canada. United States gross profit percentage decreased very slightly from 26.2 percent in 2011 to 25.9 percent in 2012 due to growth investments and some operational inefficiency.

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was $18.4 million in 2012 or $3.8 million higher than the $14.6 million incurred in 2011 due to the increased number of hydrovac units in the fleet.

Finance Cost

Finance cost was $1.2 million in 2012, unchanged from 2011. The average debt outstanding during 2012 was nearly unchanged from 2011.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 17 percent to $14.1 million in 2012 from $12.0 million in 2011. The main reason for the increase was the additional cost associated with the incentive compensation due to the increase in the price of Badger's shares. Other reasons were an increase in personnel salary costs resulting from the growth in Badger's business, increases in employee bonuses due to the good financial results and costs associated with implementing the use of electronic forms and other measures to transfer data electronically from the field to offices and from offices to Badger's customers in order to streamline certain of Badger's administrative processes. As a percentage of revenues, selling, general and administrative expenses decreased to 5.9 percent for 2012 from 6.2 percent for 2011.

Income Taxes

The effective tax rate was 33 percent for 2012 versus 28 percent for 2011. Profit before tax in the United States for 2012 increased relative to Canadian profit before tax during 2011, resulting in the increase in the effective tax rate given that corporate income tax rates are higher in the United States.

Exchange Differences on Translation of Foreign Operations

The exchange rate differences result from converting the balance sheet and profit statement related to the United States operations into Canadian currency.

Liquidity and Dividends

Funds generated from operations increased to $51.5 million in 2012 from $46.0 million in 2011 (excluding the $1.1 million payment to Clean Harbors, Inc., funds generated from operations were $47.1 million in 2011) due primarily to increased revenues and EBITDA. The Company uses its cash to pay dividends to shareholders, build additional hydrovac units, invest in maintenance capital expenditures and repay long-term debt.

The Company had working capital of $43.9 million at December 31, 2012, compared to $39.7 million at December 31, 2011.

The following table outlines the cash available to fund growth and pay dividends to shareholders in 2012 compared to 2011:

($)	**Year ended December 31, 2012**	**Year ended December 31, 2011**
Funds generated from operations	51,511,574	45,974,293
Add: proceeds from sale of property, plant and equipment	211,471	131,867
Deduct: required repayments of long-term debt	-	(3,258,554)
Deduct: maintenance capital expenditures	(3,669,569)	(2,037,325)
Cash available for growth capital expenditures and dividends	48,053,476	40,810,281
Growth capital expenditures	50,423,156	35,193,970
Dividends declared	12,057,659	11,029,907

In determining cash available for dividends, the Company excludes non-cash working capital changes for the year as well as growth capital expenditures. Changes in non-cash working capital items are excluded so as to remove the effects of timing differences in cash receipts and disbursements, which generally reverse themselves and can vary significantly between fiscal periods. Growth capital expenditures are excluded so as to include only the maintenance capital expenditures required for the sustainability of the existing asset base.

The following table outlines the excess of cash provided by operating activities and net profit over dividends declared during the years ended December 31, 2012 and 2011:

($)	**Year ended December 31, 2012**	**Year ended December 31, 2011**
Cash provided by operating activities	46,200,783	33,469,398
Net profit	28,049,759	25,803,156
Dividends declared	12,057,659	11,029,907
Excess of cash provided by operating activities over dividends declared	34,143,124	22,439,491
Excess of net profit over dividends declared	15,992,100	14,773,249

The Company pays cash dividends monthly to its shareholders. They may be reduced, increased or suspended by the Board of Directors depending on the operations of Badger and the performance of its assets. The actual cash flow available for dividends to shareholders of Badger is a function of numerous factors, including: the Company's financial performance; debt covenants and obligations; working capital requirements; maintenance and growth capital expenditure requirements for the purchase of property, plant and equipment; and the number of shares outstanding.

The Company maintains a strong balance sheet. The debt management strategy includes retaining sufficient funds from available distributable cash to finance maintenance capital expenditures as well as working capital needs. Growth capital expenditures will generally be financed through existing debt facilities, proceeds received from equity financings or cash retained from operating activities. The majority of the cash provided by operating activities during 2012 and 2011 was used to finance growth capital expenditures and to pay dividends to shareholders.

If maintenance capital expenditures increase in future periods, the Company's cash available for growth capital expenditures and dividends will be negatively affected. Due to Badger's growth rate in recent years, the majority of the hydrovac units are relatively new, with an average age of approximately four-and-a-half years. As a result, Badger is experiencing relatively low levels of maintenance capital expenditures. Over time, Badger would expect to incur annual maintenance capital expenditures approximately equalling the year's depreciation expense. Badger estimates it will remove approximately 15 to 25 hydrovac units from the fleet in 2013. Badger expects that cash provided by operations and cash available for growth capital expenditures and dividends will be sufficient to fund the maintenance capital expenditures in the future.

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

In 2012 the Company spent $54.1 million on property, plant and equipment compared to $37.2 million in 2011. During 2011 the Company's capital program consisted of the addition of 97 new hydrovac units and $1.2 million spent on the construction of new operational facilities, compared to a capital program of 131 new hydrovac units built in 2012 and $1.9 million spent on the construction of new operational facilities. The costs to build a hydrovac unit remained consistent with the average for 2011.

Maintenance capital expenditures are incurred during a period to keep the hydrovac fleet at the same number of units plus any other capital expenditures required to maintain the business. This amount will fluctuate from period-to-period depending on the number of units retired from the fleet. During the year ended December 31, 2012 Badger added 131 units to the fleet, of which five have been reflected as maintenance capital expenditures. Total maintenance capital expenditures for the year were $3.7 million, which includes the $1.9 million spent on the construction of facilities.

Financing

On June 19, 2012 the Company completed an equity financing pursuant to a prospectus dated June 13, 2012 for gross proceeds of $37.5 million through the issuance of 1,500,000 common shares at a price of $25.00 per share. Badger intends to use the net proceeds to fund growth initiatives (ie. to fund its capital expenditure program and other growth initiatives it may pursue from time to time), for working capital, and for other general corporate purposes. It is anticipated that the full amount of the net proceeds will be used, over time, to finance the manufacture by Badger of additional hydrovacs. However, the exact timing of the build of these additional hydrovacs, and the number of additional hydrovacs to be built, will depend on (i) Badger's assessments from time to time of the economy and the need for Badger's hydrovac services and (ii) any increase or decrease in the cost of parts and labour over time associated with the manufacture of hydrovacs. The net proceeds were initially used to pay down amounts drawn under the extendable revolving credit facility.

In June 2012 the Company's extendable revolving credit facility was renewed. The principal amount was decreased from $60 million to $55 million at Badger's request. The facility was used and will continue to be used to help finance Badger's capital expenditure program and support corporate activities. The facility has no required principal repayments. It expires on June 23, 2013 and is renewable by mutual agreement of the Company and the lender for an additional 364-day period. If not renewed, interest is payable on the facility for 364 days, after which the entire amount must be repaid. The facility bears interest at the bank's prime rate or bankers' acceptance rate plus 1.25 percent plus 0 to 0.75 percent depending on Badger's ratio of funded- debt-to-EBITDA.

The Company's net debt decreased by 38 percent during 2012. As at December 31, 2012 Badger's cash and cash equivalents were $2.5 million, resulting in net debt of $27.3 million versus net debt of $43.9 million at December 31, 2011. The main reason for the decrease was the funds received on closing the June 2012 equity financing.

At December 31, 2012 the Company had a long-term debt-to-equity ratio of 0.21:1 and a long-term debt-to-trailing-funds-generated-from-operations ratio of 0.58:1. Management believes that the Company's healthy balance sheet, combined with funds generated from operations, will provide sufficient capital to fund ongoing operations, pay dividends to shareholders, finance future capital expenditures and execute its strategic plan for the foreseeable future. Based on the expected capital required to fund the anticipated 2013 capital expenditure program, additional financing may be required. This could be comprised of additional debt, equity or a combination thereof. Currently the Company has a $55 million extendable, revolving facility to fund working capital requirements and finance capital expenditures, of which $29.8 million was used at December 31, 2012. The Company also had a cash and cash equivalents balance of $2.5 million at December 31, 2012. The Company's practice is to utilize an appropriate mix of debt and equity to finance its maintenance capital expenditures and growth initiatives.

Badger is in compliance with all financial covenants under the credit facility agreement. Financial performance relative to the financial ratio covenants under the extendable revolving credit facility is reflected in the table below:

Ratio	**December 31, 2012**	December 31, 2011	Threshold
Funded Debt[1] to EBITDA[2]	**0.44:1**	0.85:1	2.25:1 maximum
Fixed Charge Coverage[3]	**4.58:1**	2.11:1	1.00:1 minimum

1 Funded debt is long-term debt less cash and cash equivalents.

2 Funded debt to EBITDA means the ratio of consolidated funded debt to the aggregated EBITDA for the trailing 12 months. EBITDA is defined as the Company's actual EBITDA for the trailing 12 months.

3 Fixed charge coverage ratio means the trailing 12-month EBITDA less unfinanced capital expenditures and cash taxes, plus the unused portion of the extendable revolving credit facility, to the sum of the aggregate of scheduled long-term debt principal payments, interest and dividends.

Contractual Obligations and Committed Capital Investment

The Company intends to meet its contractual obligations through funds generated by operating activities. The Company's contractual obligations for the next five years relating to repayment of long-term debt (assuming the extendable revolving credit facility is not renewed on June 23, 2013) and lease payments for shop and office premises are as follows:

($000s)	Total	2013	2014-2017	Thereafter
Long-term debt	29,773	-	29,773	-
Shop and office leases	4,250	1,849	2,401	-
Total contractual obligations	34,023	1,849	32,174	-

In addition to the contractual obligations above, at year-end 2012 the Company had committed to certain capital expenditures totalling approximately $14.2 million. They will be financed with existing credit facilities and funds generated from operations. There are no set terms for remitting payment for these financial commitments.

SHARE CAPITAL

Shareholders' capital increased from $44.5 million at December 31, 2011 to $80.6 million at December 31, 2012 due to the June 2012 equity financing and certain employees exercising their options. Shares outstanding at December 31, 2012 were 12,326,631. Due to certain employees exercising options there were 12,332,631 shares outstanding as of March 15, 2013.

OFF-BALANCE-SHEET ARRANGEMENTS

At December 31, 2012 and 2011, the Company had no material off-balance-sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Shea Nerland Calnan LLP provides legal services to Badger at market rates. David Calnan, a Director and the Corporate Secretary of the Company, is a partner in this law firm and is involved in providing and managing Badger's legal services. The total cost of these legal services in 2012 was $201,000 compared to $356,000 in 2011.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Quarter Ended							
	2012				2011			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues ($)	69,248,611	61,961,587	53,984,135	54,034,368	56,548,569	53,853,710	42,804,832	40,970,978
Net profit ($)	7,888,160	7,901,918	6,144,629	6,115,052	8,704,497	8,152,566	4,564,267	4,381,826
Net profit per share – basic ($)	0.64	0.64	0.56	0.57	0.80	0.75	0.42	0.41
Net profit per share – diluted ($)	0.64	0.64	0.56	0.56	0.80	0.75	0.42	0.40

FOURTH QUARTER HIGHLIGHTS

- As a result of increased activity in Canada and the United States, revenue increased to $69.2 million in the three months ended December 31, 2012 from $56.5 million in the three months ended December 31, 2011. Canadian revenues increased by 21 percent, due to a general increase in demand for hydrovac services in Western Canada. Badger's United States revenue increased to $31.7 million from $25.4 million quarter-over-quarter. Removing the effect of the change in the foreign exchange rate, United States revenues increased by 27 percent in the fourth quarter of 2012 over the last quarter of 2011. This was due to additional operating locations and results from investments in business development.
- With the increase in revenues, profit before tax increased by 8 percent in the fourth quarter of 2012 over the same period in 2011.

- Average revenue per truck per month was $35,100 in the fourth quarter of 2012 compared to $35,600 per month for the same period in 2011.
- The Company added 31 hydrovac units to the fleet and removed one from service.

ACCOUNTING STANDARDS PENDING ADOPTION

The following are the IFRS pronouncements which have been issued but are not yet effective as at December 31, 2012. The pronouncements may, however, have a future impact on the measurement and/or presentation of the Company's consolidated financial statements. The pronouncements are as follows:

i) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2015, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Company is currently assessing the impact of this standard on the Company's consolidated financial statements.

ii) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company has assessed this standard and determined that the standard will not have a material impact on the Company's consolidated financial statements.

iii) IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company has assessed this standard and determined that the standard is not applicable to the Company.

iv) IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company has assessed this standard and determined that the standard will result in additional disclosures relating to the Company's subsidiaries in the consolidated financial statements.

v) IFRS 13 'Fair Value Measurement' which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces fair value measurement guidance contained in individual IFRSs, providing a single source of fair value measurement guidance. The standard provides a framework for measuring fair value and establishes new disclosure requirements to enable readers to assess the methods and inputs used to develop fair value measurements and for recurring valuations that are subject to measurement uncertainty and the effect of those measurements on the financial statements. The Company is currently assessing the impact of this standard on the Company's consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

Management is responsible for applying judgement in preparing accounting estimates. Certain estimates and related disclosure included in the financial statements are particularly sensitive because of their significance to the financial statements and the possibility that future events affecting them may differ significantly from management's current judgements. An accounting estimate is considered critical only if it requires the Company to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and if different estimates the Company could have used would have a material impact on Badger's financial condition, changes in financial condition or results of operations.

While there are several estimates and assumptions made by management in the preparation of financial statements in accordance with IFRS, the following critical accounting estimates have been identified by management:

Depreciation of the hydrovac units

The accounting estimate that has the greatest effect on the Company's financial results is the depreciation of the hydrovac units. It is carried out on the basis of the units' estimated useful lives. The Company currently depreciates them over 10 years based on current knowledge and working experience. There is a certain amount of business risk that newer technology or some other unforeseen circumstance could lower this life expectancy. A change in the remaining life of the hydrovac units or the expected residual value would affect the depreciation rate used to depreciate the hydrovac units and thus affect depreciation expense as reported in the Company's consolidated statement of comprehensive income. These changes are reported prospectively when they occur.

Tax pools and their recoverability

Badger has estimated its tax pools for the income tax provision. The actual tax pools the Company may be able to use could be materially different in the future.

Intangible assets

Intangible assets consist of service rights acquired from Badger's operating partners. The initial valuation of intangibles at the closing date of any acquisition requires judgement and estimates by management with respect to identification, valuation and determining the expected periods of benefit. Valuations are based on discounted expected future cash flows and other financial tools and models and are amortized over their expected periods of benefit or not amortized if it is determined the intangible asset has an indefinite life. Intangible assets are reviewed annually with respect to their useful lives or more frequently if events or changes in circumstances indicate that the assets might be impaired. Impairment exists when the carrying amount of the intangible asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's-length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the projections for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance. When an impairment loss subsequently reverses, the carrying amount of the intangible asset is increased to the revised estimate of the recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized.

Goodwill

Goodwill is the amount that results when the cost of acquired assets exceeds their fair value at the date of acquisition. Goodwill is recorded at cost, is not amortized and is tested at least annually for impairment. The impairment test includes the application of a fair value test, with an impairment loss recognized when the carrying amount of goodwill exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

Impairment of long-lived assets

The carrying value of long-lived assets, which include property, plant and equipment and intangible assets, is assessed for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Collectability of trade and other receivables

The Company estimates the collectability of its trade and other receivables. The Company continually reviews the balances and makes an allowance when a receivable is deemed uncollectable. The actual collectability of trade and other receivables could differ materially from the estimate.

Share-based compensation

Compensation expense associated with stock options at grant date is an estimate based on various assumptions such as volatility, annual dividend yield, risk-free interest rate and expected life. Badger uses the Black-Scholes methodology to calculate an estimate of the fair value of such compensation.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values

The Company's financial instruments recognized on the consolidated statements of financial position consist of cash and cash equivalents, trade and other receivables, trade and other payables, dividends payable 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 long-term debt approximates fair value because the long-term facilities have a floating interest rate.

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 is with customers in the petroleum and utility industries and is subject to normal industry credit risks. The Company manages its exposure to credit risk through standard credit-granting procedures and short payment terms. The Company attempts to monitor 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 an insurance program to minimize exposure to insurable losses.

At December 31, 2012, the Company had available $24.6 million of authorized borrowing capacity on the extendable revolving facility and $2.5 million of cash and cash equivalents. The credit facility has no required principal repayment. The credit facility expires June 23, 2013 and is renewable by mutual agreement of the Company and the lender for an additional 364-day period. If not renewed, interest is payable monthly on the facility for 364 days after which the entire amount is to be repaid. The Company believes it has sufficient funding through operations and the use of this facility to meet foreseeable financial obligations.

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, as follows:

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on its long-term debt. Interest is calculated at prime. The prime interest rate is subject to change. A sensitivity analysis would indicate that net profit for the year ended December 31, 2012 would have been affected by approximately $0.3 million if the average interest rate changed by 1 percentage point. The Company does not use interest rate hedges or fixed interest rate contracts to manage its exposure to interest rate fluctuations.

Foreign exchange risk

The Company has United States operations and its Canadian operations purchase certain products in United States dollars. As a result, fluctuations in the value of the Canadian dollar relative to the United States dollar can result in foreign exchange gains and losses. A sensitivity analysis would indicate that a 10 percent strengthening in the Canadian dollar against the United States dollar would decrease total comprehensive income by approximately $1.4 million, while a 10 percent weakening of the Canadian dollar against the United States dollar would increase total comprehensive income by approximately $1.5 million. The Company does not have any agreements to fix the exchange rate of the Canadian dollar to the United States dollar.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures

Badger's President and CEO and the 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. Further, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's disclosure controls and procedures at December 31, 2012 and as a result of identifying the material weakness outlined below have concluded the disclosure controls and procedures are not fully effective.

Internal control over financial reporting

Badger's President and CEO and the 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. Further, using the criteria established in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Badger's internal control over financial reporting at December 31, 2012 and as a result of identifying the material weakness outlined below have concluded the internal controls over financial reporting are not fully effective.

Material weakness

Badger has identified that it does not have sufficient accounting personnel with the appropriate tax expertise to allow for an effective review of the accuracy of its accounting for income taxes and the determination of the income tax provision. Management and the Board of Directors have determined that it is not economically feasible to maintain such personnel in-house or to engage an external tax consultant to perform an independent review. This material weakness could result in a misstatement in various tax-related accounts that could result in a material misstatement to Badger's annual consolidated financial statements and disclosure that would not be prevented or detected.

Changes in internal control over financial reporting

No changes were made to the design of Badger's internal control over financial reporting during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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.

BUSINESS RISKS

(Reference is also made to Badger's Annual Information Form.)

Reliance on the oil and natural gas sector

The oil and natural gas sector accounts for approximately 45 percent of the Company's revenues. The petroleum service industry, in which Badger participates, relies heavily on the volume of capital expenditures made by oil and natural gas explorers and producers. These spending decisions are based on several factors including, but not limited to: hydrocarbon prices, production levels of current reserves, fiscal regimes in operating areas, technology-driven exploration and extraction methodologies, and access to capital, all of which can vary greatly. To minimize the impact of the oil and natural gas industry cycles, the Company also focuses on generating revenue from the utility and general contracting market segments.

Competition

The Company operates in a highly competitive environment for hydrovac services in Canada and the United States. In order to remain the leading provider of hydrovac services in these regions, Badger continually enhances its safety and operational procedures to ensure that they meet or exceed customer expectations. Badger also has the in-house capabilities necessary to continuously improve its daylighting units so that they remain the most productive and efficient hydrovacs in the business. There can be no assurance that Badger's competitors will not achieve greater market acceptance due to pricing, efficiency, safety or other factors.

United States operations

Badger also faces risks associated with doing business in the United States. The Company has made a significant investment in the United States to develop the hydrovac market. The growth rate of the United States market is very hard to predict. The United States has been undergoing significant economic difficulties and the outlook is further complicated by substantial changes to various laws, policies and regulations that have a real or apprehended effect on business operating conditions, approval or delay of potential new projects that could require Badger's services, current rates of capital investment and the general level of confidence about future economic conditions among businesses and organizations that will be required to make decisions about future capital investment.

Safety

Badger is exposed to liabilities that are unique to the services that it provides. Such liabilities may relate to an accident or incident involving one of Badger's hydrovacs or damage to equipment or property caused by one of the hydrovacs, and could involve significant potential claims or injuries to employees or third parties. The amount of Badger's insurance coverage may not be adequate to cover potential claims or liabilities and Badger may be forced to bear substantial costs as a result of one or more accidents. Substantial claims resulting from an accident in excess of its related insurance coverage would harm Badger's financial condition and operating results. Moreover, any accident or incident involving Badger, even if Badger is fully insured or not held liable, could negatively affect Badger's reputation among customers and the public, thereby making it more difficult for Badger to compete effectively, and could significantly affect the cost and availability of insurance in the future. Due to the magnitude of insurance premiums, Badger decided to self-insure against the physical damage it could incur on the hydrovac units. This decision will be re-evaluated periodically as circumstances change.

Safety is one of the Company's on-going concerns. Badger has implemented programs to ensure its operations meet or exceed current hydrovac safety standards. The Company also employs safety advisors in each region who are responsible for maintaining and developing the Company's safety policies. These regional safety advisors monitor the Company's operations to ensure they are operating in compliance with such policies.

Depreciation of daylighting units

The Company depreciates the hydrovac units over 10 years, a policy that is based on its current knowledge and operating experience. There is a certain amount of business risk that newer technology or some other unforeseen circumstance could lower this life expectancy.

Dependence on key personnel

Badger's success depends on the services of key senior management members. The experience and talents of these individuals will be a significant factor in Badger's continued success and growth. The loss of one or more of these individuals could have a material adverse effect on Badger's operations and business prospects.

Availability of labour and equipment

While Badger has historically been able to source labour and equipment required to run its business, there can be no assurances it will be able to do so in the future.

Reliance on key suppliers

Badger has established relationships with key suppliers. There can be no assurance that current sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, Badger's ability to manufacture its hydrovac units may be impaired.

Fluctuations in weather and seasonality

Badger's operating results have been, and are expected to remain, subject to quarterly and other fluctuations due to a variety of factors including changes in weather conditions and seasonality. For example, in Western Canada Badger's results may be negatively affected if there is an extended spring break-up period since oil and natural gas industry sites may not be accessible during such periods. In Eastern Canada, Badger has in the past experienced increased use of its equipment during cold winters, thus improving the results of its operations during such times. The Company may then experience a slow period during spring thaw.

In the Western United States, Badger has from time-to-time been restricted by the imposition of government regulations from conducting its work in environmentally sensitive areas during the winter mating seasons of certain mammals and birds. This has had a negative effect on Badger's results of operations. As such, changes in the weather and seasonality may, depending on the location and nature of the event, have either a positive or negative effect on Badger's results of operations.

Fluctuations in the economy and political landscape

Operations could be adversely affected by a general economic downturn, changes in the political landscape or limitations on spending.

Compliance with government regulations

While Badger believes it is in compliance with all applicable government standards and regulations, there can be no assurance that all of Badger's business will be able to continue to comply with all applicable standards and regulations.

Environmental risk

As the owner and lessor of real property, Badger is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that Badger could be liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed at other locations. The failure to remove or remediate such substances, if any, could adversely affect Badger's ability to sell such real property or borrow using such real property as collateral and could also result in claims against Badger.

Litigation

Legal proceedings may arise from time to time in the course of Badger's business. All industries, including the hydrovac industry, are subject to legal claims, with and without merit. Such legal claims may be brought against Badger or one or more of its subsidiaries in the future from time to time. Defense and settlement costs of legal claims can be substantial, even with respect to claims without merit. Due to the inherent uncertainty of the litigation process, such process could take away from management time and effort and the resolution of any particular legal proceeding to which Badger may become subject could have a material effect on Badger's financial position and results of operations.

Income tax matters

Badger and its subsidiaries are subject to federal, provincial and state income taxes in Canada and the United States, as applicable. Badger's United States subsidiary is currently under a routine tax audit by the Internal Revenue Service in the United States. Although Badger is of the view that it and its subsidiaries are in full compliance with all applicable legal requirements relating to federal, provincial and state legislation on income tax, sales tax, goods and services tax, excise tax and all other direct or indirect taxes including business tax, real estate tax, municipal, and other taxes, there can be no assurance that Badger and its subsidiaries will not be subject to assessment, reassessment, audit, investigation, inquiry or judicial or administrative proceedings under any such laws. As taxing regimes change their tax basis and rates, or initiate reviews of prior tax returns, Badger's liability to income tax may increase and Badger could be exposed to increased costs of taxation, which could, among other things, reduce the amount of funds available to distribute to shareholders or otherwise have a material adverse effect on Badger's business, results of operations or financial condition.