Capitalizing everyday expenses to fatten margins already in free-fall?

- Explains why their margins are "artificially" high
  - Margins are clearly overstated in a big way
  - It's hard to know exactly how much because poor disclosure
- Some examples of "highly irregular" capitalization
  1. Retroactively changing PP&E
  2. Altering the age of trucks
  3. G&A expenses that barely cover exec./director comp.
  4. "Maintenance Capex" far bigger than replacement cost
- Why does this matter? … Please see WorldCom, etc.

BAD mgmt. not responding; they must know it's true?

- If not, BAD mgmt. could just explain where exactly this analysis is wrong
- BAD mgmt. hasn't responded besides a letter which means and says nothing
- The letter answers no questions

WE DEMAND AN EXPLANATION

- All of this and more has been shared with the Alberta Securities Commission
- The "smoking gun" will be revealed if/when BAD mgmt. ever responds
- If BAD mgmt. doesn't want to answer questions when investors ask, we would hope the Alberta Securities Commission wants to get to the bottom of these issues

WorldCom

What exactly did WorldCom do?

During 2001 and the first quarter of 2002, the company counted as capital investments $3.8 billion that it spent on everyday expenses. This makes a difference because capital investments are treated differently from other expenses for accounting purposes. Capital spending is money used to buy longlasting assets, like fiberoptic cables or switches that direct telephone calls, so the cost is spread out over several years. For example, if WorldCom spent $10 million on switches it expected to last 10 years, it would book a $1 million expense for 10 years. In contrast, if it spent $10 million on office space, it has to count all of that expense in the period in which it occurred. The company says the expenses that were counted as capital expenditures involve "line costs," which are fees WorldCom pays to other telecom players for the right to access their networks.

How does this affect profits?

Counting everyday expenses as capital investments boosts net income because expenses that are supposed to be counted in one quarter are spread out over years. WorldCom originally reported net income of $1.4 billion in 2001 and $172 million in the first quarter of 2002. Now the company says it lost money the whole time. **"You do this to make your bottom line look better,"** says Rosemarie Kalinowski, an analyst with debt rating agency Standard & Poor's.

Back to Gerry Schieflbein…

Inconsistencies and anomalies in financial reporting raise a red flag

For the end 2015 filings, the end Dec 2015 PPE for Canada was stated at C$64.45m, while for the US PPE was stated at C$249.21m. For the end Q1 2016 filings, the same end Dec 2015 PPE for Canada was stated at C$105.55m, while for the US PPE was stated at C$208.11m. In just one quarter, the PPE for Canada for the same balance sheet date had shifted up some C$51.1m, while PPE for the US had shifted down by C$41.1m.

				C$ 000							
As at March 31, 2016				**As at December 31, 2015**				**As at September 30, 2015**			
	Canada	**U.S.**	**Total**		**Canada**	**U.S.**	**Total**		**Canada**	**U.S.**	**Total**
Property, plant and equipment	103,431	188,231	291,662	Property, plant and equipment	64,453	249,213	313,666	Property, plant and equipment	113,456	200,679	314,135
Intangible assets	9,106	0	9,106	Intangible assets	9,106	0	9,106	Intangible assets	14,554	0	14,554
Total assets	169,327	253,642	422,969	**Total assets**	**157,285**	**289,400**	**446,685**	**Total assets**	**174,920**	**280,860**	**455,780**
As at December 31, 2015				**As at December 31, 2014**				**As at December 31, 2014**			
Property, plant and equipment	105,555	208,111	313,666	Property, plant and equipment	120,561	165,458	286,019	Property, plant and equipment	120,561	165,458	286,019
Intangible assets	9,106	0	9,106	Intangible assets	15,511	0	15,511	Intangible assets	15,511	0	15,511
Total assets	157,285	289,400	446,685	**Total assets**	**215,251**	**229,048**	**444,299**	**Total assets**	**215,251**	**229,048**	**444,299**

CROSS BORDER "MOVEMENT" OF TRUCKS IS TROUBLING

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Oh Gerry Pooh…

- Q4 2016 MD&A, Page 8
- The average age of Badger’s fleet is approximately four and a half years. Badger determines the average age of the fleet with reference to the year the unit is produced. In the year of production the unit is considered not to age, and then ages a full year for every year thereafter. **In the second and third quarter of 2016, references in this section stated that the average age at those times were “approximately four years” and “less than four years”. At both times the age of the fleet should have been referenced as being approximately five years.**

This is unusual. The age of a truck, a person..that’s a known thing.

Are the ages of trucks being impacted retroactively in any way?

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…and how about this one

- **Canadian G&A costs for Q4 2015 are completely out of line with previous quarterly costs.**
- **Was Canada G&A only $273,000 in Q4 2015? There's headquarters, a manufacturing plant and all those locations --- for that bargain basement price?**

		3mth End Mar	12mth End Dec	3mth End Dec	3mth End Sep	3mth End Jun	3mth End Mar
C$ 000		**2016**	**2015**	**2015**	**2015**	**2015**	**2015**
Canada General and administrative		1,837	5,861	273	1,511	2,085	1,992
US General and administrative		2,093	7,895	**2,573**	1,949	2,048	1,325
Total General and administrative		**3,930**	**13,756**	**2,845**	**3,460**	**4,134**	**3,317**

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Exec/Director comp is 96% CA G&A?

261,839/273,000=96%

Executive Officer	Year	Salary ($)	Share-Based Awards[1] DSUs ($)	Share-Based Awards[1] PSUs ($)	Annual Incentive Bonus [2] ($)	All Other Compensation[3] ($)	Total Compensation[4] [5] ($)
Tor Wilson, President and CEO	2015	514,981	0	750,000	310,400	74,219	1,649,600
	2014	413,417	415,000	0	640,000	87,819	1,556,236
	2013	356,183	284,946	0	433,795	118,513	1,193,437
Gerald Schiefelbein, VP, Finance and CFO[6]	2015	325,124	181,125	181,125	167,100	15,466	869,940
	2014	148,097	192,500	0	240,000	7,627	588,224
	2013	0	0	0	0	0	0

Directors	Fees Earned[3] ($)	DSUs [4] ($)	All Other Compensation[5] ($)	Total ($)
David M. Calnan	21,750	135,000	7,231	163,981
Glen Roane	16,500	190,000	9,038	215,538
J. Richard Couillard[1]	15,000	0	0	15,000
Garry P. Mihaichuk	22,500	135,000	8,316	165,816
Catherine Best[2]	34,000	100,000	735	134,735
Grant Billing[2]	9,000	135,000	992	144,992
William Lingard[2]	30,250	100,000	735	130,985

÷ 4 =

128,475
81,281
5,438
4,125
5,625

÷ 2 =

17,000
4,500
15,125

Total = 261,839

Notes:
(1) Mr. J. Richard Couillard ceased to be a director of the Corporation effective June 18, 2015.
(2) Ms. Catherine Best, Mr. Grant Billing and Mr. William Lingard were each elected as directors of the Corporation effective June 18, 2015.

And the best one of all…

- Maintenance Capex in Q4:14 was $7.074mn vs. $2.420mn in Q3:14
- Hydrovac trucks maintenance capex in Q4:14 was $6.301mn, or $1.050mn per truck (6 added to maintain the fleet); well above the prior quarters' cost per truck.
- Why are shareholder's spending >$1mn to replace trucks that cost a fraction of that price?

Q4:14 MD&A Page 5:

	Three months ended December 31,	
	2014	2013
Maintenance capital expenditures	7,074	2,420

Q4:15 MD&A Page 23:

	Three months ended December 31,	
Maintenance capital expenditures	**2015**	**2014**
Hydrovac trucks	3,327	6,301
Other vehicles and trailers	595	312
Buildings	-	-
Other	-	462
Total maintenance capital expenditures	**3,921**	**7,075**

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How can this possibly be?

- **Great Scott, there's a CPA with a powerful background on the board…**
- **Meet Catherine Best** – Good Board Member at BAD, including member of audit committee. Here is her impressive Bio from BAD's annual information form:
  - Ms. Best is a corporate director, currently serving on the boards of AltaGas Ltd., Canadian Natural Resources Limited and Superior Plus Corporation. From 2000 to 2009 Ms. Best was the Executive Vice President, Risk Management & Chief Financial Officer of the Calgary Health Region. **Prior to 2000 she was a Corporate Audit Partner with Ernst & Young.** She holds a Bachelor of Interior Design degree from the University of Manitoba. **Ms. Best is a Chartered Accountant** and was awarded her FCA designation in 2005 and her ICD.D in 2009. Ms. Best has been a director of Badger since June 18, 2015.

- **Catherine, you should know better and demand better**
  - Are you comfortable with the treatment of Accounts Receivable at Badger? Are all those old receivables truly collectable?
  - Should the revenue from franchisees be fully recognized at Badger? Where does the ultimate responsibility for AR collection reside? Is this aggressive / comfortable revenue treatment?
  - Are the proper controls in place to insure that revenue recognition and cost allocation are reliable?
  - Are you comfortable with the definition of maintenance cap ex?
  - Who answers the audit committee's questions about financials and controls? Is it Gerry? Is it Allen Richter? Is it another board member?
  - Does it make any sense that Badger has relocated so many trucks, so quickly to the U.S and put them all to work almost immediately? Do you realize how big a percentage of the market those relocated trucks represent? How does relocation trucks to the U.S. benefit Badger's P&L?

Blow the whistle!

- This presentation and more will be shared with Alberta Securities Commission
  - If you have information you would like to share please email whistleblower@turnoutthebadgerdaylight.com
  - All information will be kept confidential
  - Follow or comment on Twitter @AlderLaneeggs
  - Join us to support free speech and free markets!

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We rely on public disclosures of the companies under review and other companies in the same or similar sectors. We also conduct interviews with employees, former employees, officers, and others associated with the companies we analyze, when possible. We review national and international news services, internet reporting, and social media and may rely on reporting by others to prepare our report. We discuss the companies with other analysts who may have positive or negative information and opinions about the companies under review and then analyze the information and opinions received to determine whether the information and opinions are based on available factual information or disclosures. We also may obtain information from, and rely on, information from sources who wish to remain confidential and whose information, but not identity, may be included in this report.

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