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**BADGER INCOME FUND ANNOUNCES RESULTS FOR THE YEAR
ENDED DECEMBER 31, 2009**

Calgary, Alberta – Badger Income Fund (“Badger” or the “Fund”) is pleased to announce its results for the year and three months ended December 31, 2009.

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 of Badger Income Fund (the “Fund” or “Badger”) for the year ended December 31, 2009 and the related notes and material contained in other parts of this annual report. Readers should also refer to the Annual Information Form for the year ended December 31, 2009. Additional information relating to Badger, including the Fund’s Annual Information Form, may be found on SEDAR at www.sedar.com.

This MD&A has been prepared taking into consideration information available to March 17, 2010.

Cautionary Statement Regarding Forward-Looking Information and Statements

Certain statements and information contained in this MD&A and other continuous disclosure documents of the Fund referenced herein, including statements related to the Fund’s capital expenditures, projected growth, view and outlook toward margins, cash distributions, customer pricing, future market opportunities and statements, and information that contain the 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 Fund 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:

- Internally planning for modest growth in 2010 with the expectation of more opportunities for work than in 2009;
- Being positioned for additional growth if opportunities present themselves;
- Belief the economic recovery will be slow and organizations will be slow to invest in infrastructure;
- The expectation of conversion to a corporate structure during 2010 and anticipation of remitting a dividend between 75% and 100% of the current level of the Fund's annual distribution (\$1.26 per unit);
- The expectation that Badger will own three more facilities and will upgrade one part of its manufacturing facility at a cost of \$5.3 million in 2010. These capital expenditures are expected to be paid for with mortgage financing, the existing extendable revolving credit facility and cash flow from operating activities;
- Estimates that the Fund will remove approximately 20 hydrovac units from the fleet in 2010;
- Revenues will be negatively affected if Badger is unable to replace project work;
- Believing that downward pressure on margins will continue in 2010;
- Believing that Badger will do a better job in 2010 of finding more work and adding value for cost; and
- Anticipation of renewing the extendable revolving credit facility during 2010 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:

- Badger has the ability to achieve internal revenue, net earnings and cash flow forecasts for 2010;
- There will be long-term demand for hydrovac services provided in support of oil refineries, petro-chemical plants, power plants and other large industrial facilities throughout North America;
- Over the short term, there will be increased variability in recurring industrial maintenance and production support services throughout 2010;
- Badger will maintain relationships with current customers and develop successful relationships with new customers;
- The Fund will collect customer obligations in a timely manner; and
- Badger will execute its growth strategies.

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: supply-demand 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 lists of factors are not exhaustive. Additional information on these and other factors that could affect the Fund's operations and financial results is included in reports on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or at the Fund's website. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. The Fund 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-GAAP Financial Measures

This MD&A contains references to certain financial measures, including some that do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) 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 distribution” 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 which is available for distribution to unitholders. 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 (EBITDA) and is a measure of the Fund's operating profitability and is therefore useful to management and investors. EBITDA provides an indication of the results generated by the Fund's principal business activities prior to how these activities are financed, assets are amortized or how the results are taxed in various jurisdictions. EBITDA is calculated from the Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings as gross margin less selling, general and administrative costs and foreign exchange loss (gain). It is calculated as follows:

\$	Three months ended December 31,		Year ended December 31,	
	2009	2008	2009	2008
Net earnings and comprehensive income	6,257,324	2,732,192	19,653,128	18,981,890
Add (deduct):				
Income taxes	(1,525,907)	2,746,811	1,973,116	7,185,900
Interest – long-term	587,715	453,014	1,481,160	1,708,864
Gain on sale of property, plant and equipment	(1,362,063)	37,004	(1,474,757)	(77,203)
Amortization	3,845,773	3,293,246	13,836,620	12,506,492
	7,802,842	9,262,267	35,469,267	40,305,943

“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 earnings or other measures of financial performance calculated in accordance with GAAP. Funds generated from operations is derived from the Consolidated Statements of Cash flows and is calculated as follows:

\$	Three months ended December 31,		Year ended December 31,	
	2009	2008	2009	2008
Cash provided by operating activities	8,411,724	10,319,567	33,775,825	35,231,938
Add (deduct):				
Net change in non-cash working capital relating to operating activities	(1,513,970)	(816,497)	(2,764,367)	3,748,988
	6,897,754	9,503,070	31,011,458	38,980,926

“Growth capital expenditures” are capital expenditures that are intended to improve Badger’s efficiency, productivity or overall capacity and thereby to allow Badger to access new markets. It generally represents any net additions to the daylighting fleet. Growth capital expenditures exclude acquisitions made during the period.

“Maintenance capital expenditures” are any amounts incurred during a reporting period to keep the Fund’s daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the capacities of the existing business. It also includes 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.

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

Financial Highlights

(\$ thousands, except per unit and total units outstanding information)

	Three months ended December 31, 2009	Three months ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2008
Revenues	33,123	40,471	134,970	148,346
EBITDA	7,803	9,262	35,469	40,306
Earnings before income taxes	4,731	5,479	21,626	26,168
Taxes				
Current	362	617	1,921	1,387
Future	(1,888)	2,130	52	5,799
Net earnings	6,257	2,732	19,653	18,982
Net earnings per unit – diluted (\$)	0.58	0.25	1.82	1.75
Funds generated from operations	6,898	9,503	31,011	38,981
Funds generated from operations per unit – diluted (\$)	0.64	0.88	2.87	3.60
Maintenance capital expenditures	2,031	1,166	8,193	1,797
Required long-term debt repayments	1,538	108	1,864	326
Cash available for growth and distribution	6,657	8,253	25,513	37,712
Cash distributions declared	3,405	3,399	13,614	13,587
Growth capital expenditures	-	10,740	-	37,271
Total units outstanding	10,808,503	10,790,744	10,808,503	10,790,744

Overview

Highlights for the year ended December 31, 2009 are as follows:

- The Fund's financial results declined from the previous year. Revenues decreased by 9 percent to \$135.0 million in 2009 from \$148.3 million in 2008, while EBITDA decreased by 12 percent to \$35.5 million in 2009 from \$40.3 million in 2008.
- As a result of the reduced revenues EBITDA as a percentage of revenue decreased from 27 percent in 2008 to 26 percent in 2009.
- Cash available for growth and distribution decreased by 32 percent to \$25.5 million in 2009 from \$37.7 million in 2008.
- Long-term debt decreased to \$32.3 million at December 31, 2009 from \$39.6 million at December 31, 2008.
- The Fund renewed its \$40 million extendable revolving credit facility.
- The Fund added 33 new hydrovac units and removed 39 from service, exiting the year with 407 hydrovac units. Of the total, 228 units are operating in Canada and 179 in the United States. These capital expenditures are considered to be maintenance capital expenditures as there were no net additions to the daylighting fleet during 2009. They were financed from cash generated from operations.

Selected Annual Financial Information

(\$)	Year ended December 31,		
	2009	2008	2007
Revenues	134,970,474	148,345,556	117,687,718
Net earnings	19,653,128	18,981,890	16,722,845
Net earnings per unit – basic	1.82	1.76	1.55
Net earnings per unit – diluted	1.82	1.75	1.55
Total assets (end of period)	137,864,137	145,529,041	110,798,162
Total long-term debt ⁽¹⁾ (end of period)	32,284,264	39,581,362	26,254,010
Distributions declared	13,614,197	13,586,593	13,558,421

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

Outlook

Overall it remains very difficult to forecast nearly any market, including Badger's, in 2010 given the uncertainty over the economic recovery and capital expenditures by the oil and natural gas industry. Badger is planning for modest internal growth towards the end of the year but is positioned for additional growth if opportunities present themselves. The Fund is of the belief that it will be a slow recovery and organizations will be slow to invest in infrastructure. There are potential upsides. For example, the United States federal government has committed many billions of dollars to infrastructure projects, although the majority of this money has not been spent. Oil and natural gas activity has seen some improvement which of course in the longer term is positive to Badger. It should be noted that the first quarter of 2009 was a good growth quarter for Badger due to the work available to complete many projects started during the strong economic years.

With the new legislation dealing with income trusts coming into force in 2011 Badger's plan is to convert to a dividend-paying corporation before the end of 2010. The Board of Directors will make the final decision on the level and timing of the dividend at the time of conversion. The basic plan looking forward from today would be to have an expected dividend between 75% and 100% of the current level of the Fund's annual distribution (\$1.26 per unit). More will be known by the end of 2010.

Badger expects to own three more facilities in 2010 where it will run corporate operations and is also doing a capital upgrade on one part of its manufacturing facility. Total capital cost for these additions is estimated to be approximately \$5.3 million. Badger normally prefers to lease these facilities for its operating centres but in these three cases it made more sense to own them. Two of the three are being built to Badger's specifications. These capital expenditures will be funded by a combination of a mortgage financing, the extendable revolving credit facility and cash flow from operating activities.

The major uncertainties the Fund sees in 2010 are as follows:

1. How much work will there be in the marketplace? The economy is on the road to recovery and Badger expects more opportunities for work than in 2009. However, it is unknown what the actual level of work will be.
2. In 2008 and 2009 Badger had several good projects which required multiple Badger units to get the work done. This project work is great for revenue but is very inconsistent. If these projects, which are winding down, cannot be replaced with new projects then future revenue will be reduced. In locations with big projects Badger is trying to find more customers to alleviate some of this uncertainty. Badger's success in finding this work is unknown.
3. Maintaining margins in 2009 was a difficult task. In most operating centres Badger maintained good margins in 2009, while certain areas struggled. Badger believes downward pressure on margins will continue in 2010 and therefore it has put in considerable effort to fix the weak areas and maintain the strong ones. Again time will tell how successful Badger will be.

Badger's focus in 2010 remains finding more work and value for cost. The Fund made some progress with these mandates in 2009 but is planning to do better in 2010. Two-thousand nine was a tough year but Badger was still able to generate good cash flow, maintain distributions and reduce its long-term debt. There is uncertainty in the marketplace but also opportunities. Badger intends to look for opportunities in 2010 and make the most out of what it can find.

Overall Performance for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Results of Operations

Revenues

Revenues were \$135.0 million for the year ended December 31, 2009 compared to \$148.3 million for the year ended December 31, 2008. The decrease is attributable to the following:

- Canadian revenues decreased by 19 percent from \$95.0 million in 2008 to \$77.0 million in 2009. Western Canada hydrovac revenue decreased by 24 percent due to a general decrease in demand for hydrovac services in various areas as a result of reduced oil and natural gas commodity prices, resulting in less plant work and fewer pipeline projects. Also, with the decreased activity levels there was added pricing pressure resulting in a reduction in the hydrovac rates being charged. Eastern Canada revenue decreased by 6 percent year-over-year due to the completion of one large project in 2008 that did not carry on into 2009; and
- United States revenues increased by 9 percent to \$57.9 million in 2009 from \$53.4 million in 2008. Removing the effect of the increase in the foreign exchange rate, revenues increased by 2 percent. The marginal increase in revenue was attributable to good project work in the Eastern United States region, which was offset by a decrease in revenues in the Western United States region where lower oil and natural gas activity had a negative impact on the level of hydrovac work.

Badger's average revenue per truck per month for 2009 was \$24,700 versus \$29,200 for 2008. The decrease is due to reduced revenue and the increase in the average size of the fleet.

Included in revenues is \$1.6 million of truck placement and franchise fees for 2009, versus \$2.1 million for 2008.

Direct Costs

Direct costs were \$88.3 million in 2009, a decrease of \$7.9 million from \$96.2 million in 2008. This decrease of 8 percent is less than the decrease in revenues of 9 percent because of extra costs in the Western Canada locations associated with growth-oriented investments and poor cost control in certain locations.

Gross Margin

Gross margin was 34.6 percent for the year ended 2009, a decrease from the 35.2 percent for the year ended 2008. Canadian gross margin percentage decreased from 35.6 percent in 2008 to 34.7 percent in 2009 due to incomplete success at lowering costs in the Western Canada corporate locations. Pricing pressure in Western Canada also resulted in margins being reduced.

Amortization

Amortization was \$13.8 million in 2009 or \$1.3 million higher than the \$12.5 million in 2008. The increase reflects the larger average number of hydrovac units in the fleet. Included in this figure is approximately \$196,000 related to amortization of intangible assets with a limited life.

Gain on Sale of Property, Plant and Equipment

During November 2009 the Fund sold certain land and building for gross proceeds of \$3.2 million, resulting in a gain on sale of \$1.1 million.

Interest Expense

Interest expense was \$1.5 million in 2009 versus \$1.7 million in 2008. The lower interest expense is attributable to lower interest rates being charged on the debt and having a lower average debt balance outstanding throughout 2009 versus 2008.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were marginally higher at \$11.5 million in 2009 compared to \$11.2 million in 2008. As a percentage of revenues, selling, general and administrative expenses were 8.5 percent in 2009 versus 7.6 percent in 2008. The increase in the percentage was due to the reduced revenues in Canada.

Foreign Exchange Loss (Gain)

The foreign exchange loss or gain results from converting the balance sheet and earnings statement related to the United States operations into Canadian currency.

Income Taxes

The effective tax rate for 2009 was 9 percent versus 27 percent for 2008. The year-over-year reduction in the effective rate was due to the recognition of United States losses not previously recognized which reduced tax expense by \$2.1 million, reduction in the withholding taxes remitted during 2009 versus 2008, a portion of the 2009 gain on disposal of the land and building not being taxable and the recognition of capital losses in 2009 not previously recognized for accounting purposes.

In general, the low effective tax rate is due to the trust structure, which results in tax-deductible distributions being made to unitholders.

Liquidity and Distributions

Funds generated from operations decreased to \$31.0 million in 2009 from \$39.0 million in 2008 due primarily to lower Canadian activity levels. The Fund uses its cash to make distributions to unitholders, build additional hydrovac units, invest in maintenance capital expenditures and repay long-term debt.

The Fund had working capital of \$26.6 million at December 31, 2009 compared to \$21.8 million at December 31, 2008. The increase was due to the Fund remitting payment in 2009 for all of the cab and chassis that had been acquired prior to December 31, 2008, with the amount being included in the accounts payable and accrued liabilities figure at December 31, 2008, lowering working capital at that date.

The following table outlines the cash available to fund growth and pay distributions to unitholders in 2009 compared to 2008:

(\$)	Year ended December 31, 2009	Year ended December 31, 2008
Cash provided by operating activities	33,775,825	35,231,938
Add (deduct): net change in non-cash working capital	<u>(2,764,367)</u>	<u>3,748,988</u>
Funds generated from operations	31,011,458	38,980,926
Add: proceeds on disposal of property, plant and equipment	4,557,740	854,746
Deduct: required repayments of long-term debt	(1,863,775)	(326,269)
Deduct: maintenance capital expenditures	<u>(8,192,674)</u>	<u>(1,797,099)</u>
Cash available for growth capital expenditures and distributions	<u>25,512,749</u>	<u>37,712,304</u>
Growth capital expenditures	<u>---</u>	<u>37,271,481</u>
Cash distributions declared	<u>13,614,197</u>	<u>13,586,593</u>

In determining cash available for distributions the Fund excludes non-cash working capital changes for the year as well as growth capital expenditures. Changes in non-cash working capital items have been 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 have been 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 earnings over cash distributions declared during the years ended December 31, 2009 and 2008:

(\$)	Year ended December 31, 2009	Year ended December 31, 2008
Cash provided by operating activities	33,775,825	35,231,938
Net earnings	19,653,128	18,981,890
Cash distributions declared	13,614,197	13,586,593
Excess of cash provided by operating activities over cash distributions declared	20,161,628	21,645,345
Excess of net earnings over cash distributions declared	6,038,931	5,395,297

The Fund makes regular monthly cash distributions to unitholders. These cash distributions may be reduced, increased or suspended entirely by the trustees depending on the operations of Badger and the performance of its assets. The actual cash flow available for distribution to holders of Fund units is a function of numerous factors, including: the Fund'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 number of units outstanding.

The Fund maintains a strong balance sheet and has sufficient debt facilities to manage short-term funding needs as well as planned equipment additions. 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 or cash retained from operating activities. The majority of the cash provided by operating activities during 2009 and 2008 was used to finance maintenance and growth capital expenditures and to pay distributions to unitholders.

If maintenance capital expenditures increase in future periods, the Fund's cash available for growth capital expenditures and distributions 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 currently experiencing relatively low levels of maintenance capital expenditures. Over time, Badger would expect to incur annual maintenance capital expenditures in an amount that approximates the amortization expense reported in the year. Badger estimates it will remove approximately 20 hydrovac units from the fleet in 2010. Badger expects that cash provided by operations and cash available for growth capital expenditures and distributions will be sufficient to fund the maintenance capital expenditures in the future.

Badger is restricted from declaring distributions and distributing cash if it is in breach of the covenants under its credit facilities. As at the date of this MD&A the Fund is in compliance with all debt covenants and is able to fully utilize all existing credit facilities. Badger does not have a stability rating.

Capital Resources

Investing

In 2009 the Fund spent \$8.2 million on property, plant and equipment compared to \$39.1 million in 2008. During 2009, the Fund added 33 new hydrovac units compared to 84 new hydrovac units built in 2008. The costs to build a hydrovac unit increased by approximately 13 percent from 2008 to 2009. The main reasons for the increase were the increased cost of acquiring the cab and chassis which are purchased in United States dollars and the reduced build rate resulting in fixed overhead costs being allocated to fewer units.

Maintenance capital expenditures are incurred during a period to keep the hydrovac fleet at the same number of units, which applied to all of the units that joined the fleet in 2009, plus any other capital expenditures required to maintain the existing business. As a result the \$8.2 million of 2009 capital expenditures has been reflected as maintenance capital expenditures.

Based on the current build rate of the hydrovac units, Badger has enough cab and chassis for the first half of 2010. This will lower the cash requirement to build daylighting units for the foreseeable future.

Financing

In June 2009 the Fund's extendable revolving credit facility was renewed. The principal amount remained unchanged at \$40 million. The facility has been used and will continue to be used to assist in financing Badger's capital expenditure program and general corporate activities. The facility has no required principal repayments. It expires on June 26, 2010 and is renewable at Badger's option 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 plus ¼ percent or bankers' acceptance rate plus 1.75 percent plus 0 to 1 percent depending on Badger's ratio of funded-debt-to-EBITDA.

In November 2009 the Fund sold certain land and buildings for gross proceeds of \$3.2 million. The proceeds were used to repay the mortgage balance outstanding of \$1.4 million with the balance being applied to the extendable revolving credit facility.

During 2009 Badger repaid \$7.3 million of long-term debt. As a result of these principal payments the Fund's long-term debt, including the current portion, was \$32.3 million at year-end 2009 versus \$39.6 million at year-end 2008. It should be noted that as at December 31, 2009 Badger's cash and short-term deposits were \$7.5 million resulting in net debt of \$24.8 million versus net debt of \$36.9 million at December 31, 2008. The decrease in net debt was the result of cash flow generated from operations, a reduction in capital expenditures and proceeds received on the disposal of property, plant and equipment.

At December 31, 2009 the Fund had a long-term debt-to-equity ratio of 0.46:1 and a long-term debt-to-trailing-funds-generated-from-operations ratio of 1.04:1. Management believes that the Fund's healthy balance sheet combined with funds generated from operations will provide sufficient capital to fund ongoing operations, make distributions to unitholders, finance future capital expenditures and execute its strategic plan for the foreseeable future. Currently the Fund

has a \$40 million extendable, revolving facility to fund working capital requirements and finance capital expenditures, of which \$28.7 million was used at December 31, 2009. The Fund also had a cash and short-term deposit balance of \$7.5 million at December 31, 2009. The Fund'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, 2009	December 31, 2008	Threshold
Current ⁽¹⁾	3.01:1	2.16:1	1.20:1 minimum
Funded Debt ⁽²⁾ to EBITDA ⁽³⁾	0.87:1	0.98:1	2.00:1 maximum
Fixed Charge Coverage ⁽⁴⁾	2.49:1	1.26:1	1.00:1 minimum
Distribution ⁽⁵⁾	0.65:1	0.37:1	1.00:1 maximum

1 Current ratio means the ratio of the consolidated current assets to consolidated net current liabilities (excluding the current portion of long-term debt).

2 Funded debt is long-term debt.

3 Funded debt to EBITDA means the ratio of consolidated funded debt to the aggregated EBITDA for the trailing 12 months. Funded debt is defined as long-term debt including any current portion thereof. EBITDA is defined as the trailing 12 months of EBITDA for the Fund.

4 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 distributions.

5 Distribution ratio means distributions for the trailing 12-month period to the sum of funds generated from operations less scheduled long-term debt principal payments and maintenance capital expenditures.

Contractual Obligations and Committed Capital Investment

The Fund intends to meet its contractual obligations through funds generated by operating activities. The Fund'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 26, 2010) and lease payments for shop and office premises are as follows:

(\$000s)	Total	2010	2011-2012	2013-2014	Thereafter
Long-term debt	32,284	324	29,349	648	1,963
Shop and office leases	1,719	779	693	247	-
Total contractual obligations	34,003	1,103	30,042	895	1,963

In addition to the contractual obligations above, at year-end 2009 the Fund had committed to certain capital expenditures totalling approximately \$2.3 million. These capital expenditures will be financed with existing credit facilities and funds generated from operations. There are no set terms for remitting payment for these financial commitments.

Unitholders' Capital

Unitholders' capital increased by \$0.2 million year-over-year to \$44.4 million at December 31, 2009. This was the result of issuing the following units:

- 14,009 fund units from the long-term incentive plan as payment for 2008 management performance bonuses; and
- 3,750 fund units from the long-term incentive plan as partial payment of 2009 fees to non-management trustees.

Units outstanding at December 31, 2009 were 10,808,503. There was no change to the balance as of March 17, 2010.

Off-Balance-Sheet Arrangements

At December 31, 2009 and 2008, the Fund had no off-balance-sheet arrangements.

Transactions with Related Parties

Shea Nerland Calnan LLP provides legal services to Badger at market rates. David Calnan, a Trustee and the Corporate Secretary of the Fund, is a partner in the law firm of Shea Nerland Calnan LLP and is involved in providing and managing Badger's legal services. The total cost of these legal services in 2009 was \$273,000 compared to \$283,000 in 2008.

Selected Quarterly Financial Information

	Quarter Ended							
	2009				2008			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues (\$)	33,123,204	35,004,725	29,459,240	37,383,305	40,471,059	39,957,349	33,142,814	34,774,334
Net earnings (\$)	6,257,324	4,795,804	2,926,670	5,673,330	2,732,192	6,960,013	4,006,788	5,282,897
Net earnings per unit – basic (\$)	0.58	0.44	0.27	0.53	0.25	0.64	0.37	0.49
Net earnings per unit – diluted (\$)	0.58	0.44	0.27	0.53	0.25	0.64	0.37	0.49

Fourth Quarter Highlights

■ As a result of decreased activity in Canada, revenue decreased to \$33.1 million in the three months ended December 31, 2009 from \$40.5 million in the three months ended December 31, 2008. Canadian revenues decreased by 24 percent due to a general decrease in demand for hydrovac services in various areas as a result of reduced oil and natural gas commodity prices, resulting in less plant work and fewer pipeline projects. Also, with the decreased activity levels there was added pricing pressure resulting in a reduction in the hydrovac rates being charged. Badger's United States revenue decreased to \$14.3 million from \$15.7 million quarter-over-quarter. If the effect of the foreign exchange rate decrease were removed United States revenue

increased by 4 percent comparing the last quarter of 2009 to the last quarter of 2008. An increase in the Eastern United States revenues due to good project work was offset by a reduction in the Western United States revenues due to lower oil and natural gas activity reducing hydrovac revenues.

- Although revenue decreased net earnings increased from \$2.7 million for the three months ended December 31, 2008 to \$6.3 million for the three months ended December 31, 2009. The main reasons for the increase were the reduction in the effective tax rate due to the recognition of United States tax losses not previously recognized and the \$1.1 million gain on sale recorded on the sale of certain land and building.

- Average revenue per truck per month was \$24,100 in the fourth quarter of 2009 compared to \$29,600 per month for the same period in 2008. The decrease is due to reduced revenue.

- The Fund added seven hydrovac units to the fleet and removed 13 from service.

New Accounting Pronouncements

Business Combinations and Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 1582 “Business Combinations” to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards (IFRS). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. This standard will impact the Fund’s consolidated financial statements if the Fund enters a business combination in the future.

The CICA concurrently issued Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interests” which replaced Section 1600 “Consolidated Financial Statements”. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are adopted early, at the same time as Section 1582 “Business Combinations”. The adoption of these standards is not expected to have any material impact on the Fund’s financial statements except if the Fund enters into a business combination in the future.

Convergence with International Financial Reporting Standards

In January 2006, Canada’s Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. On February 13, 2008, the AcSB confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after

January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canada's current GAAP for all publicly accountable profit-oriented enterprises.

The Fund has developed a conversion plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information relating to 2010. As part of the IFRS conversion project, the Fund has engaged external consultants to assist and advise in the Fund's transition to IFRS.

The conversion project consists of three phases:

Phase 1 Preliminary Impact Assessment – This phase involves the high-level identification and assessment of the differences between IFRS and Canadian GAAP that will impact the Fund.

Phase 2 Detailed Evaluation – This phase involves performing a detailed impact assessment of the differences between IFRS and Canadian GAAP, reviewing and approving accounting policy choices, identifying impact on systems and business processes, preparing position papers for areas of significant judgement, quantifying IFRS conversion adjustments and drafting IFRS-compliant consolidated financial statements.

Phase 3 Implementation – This phase involves embedding changes to systems, processes and internal controls, drafting the transitional opening balance sheet and preparing pro-forma IFRS-compliant consolidated interim and annual financial statements for the 2011 fiscal year including comparatives.

The Fund completed Phase 1 during the third quarter of 2008 and is currently in Phase 2 of the project. Phase 2 is scheduled to be completed in the second quarter of 2010 at which time the Fund will commence Phase 3.

Based on the work completed to date, the Fund expects the greatest potential impact of IFRS adoption to be within the following areas:

First-time adoption of IFRS ("IFRS 1")

IFRS 1 provides the framework for the first-time adoption of IFRS and outlines that, in general, an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion to IFRS shall be directly recognized in retained earnings. However, IFRS 1 also provides a number of optional exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions which prohibit retrospective application of standards. There are currently 15 elective exemptions and four mandatory exceptions that need to be considered.

The Fund currently expects to apply the following elective exemptions:

- It will not use fair value as the deemed cost of items of property, plant and equipment;
- It will not restate the accounting of past business combinations;
- It will reset its foreign currency translation account to nil;
- It will commence application of IFRS 2 (Share Based Payment) to options granted after November 7, 2002;

- It will assess whether arrangements contain a lease on the basis of the facts and circumstances existing at the date of transition to IFRS; and
- It will not restate the accounting of borrowing costs.

The remaining elective exemptions have limited or no applicability to the Fund.

Property, plant and equipment

IFRS and Canadian GAAP contain the same basic principles for property, plant and equipment; however, there are some differences. Specifically, IFRS requires property, plant and equipment to be broken down into significant components and amortizing each one separately. In addition, unlike Canadian GAAP, IFRS permits property, plant and equipment to be measured at fair value or amortized cost. In this regard, the Fund expects to continue to reflect property, plant and equipment at amortized cost.

Impairment of assets

Canadian GAAP impairment testing involves two steps, the first of which compares the asset carrying value with undiscounted future cash flows to determine whether impairment exists. If the carrying value exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying value is written down to estimated fair value.

International Accounting Standard (IAS) 36 Impairment of Assets (“IAS 36”) uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may result in more frequent write-downs where carrying values of assets were previously accepted under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. Furthermore, IAS 36 requires the reversal of an impairment loss for an asset other than goodwill where there is an indication that circumstances have changed and that the impairment loss no longer exists or may have decreased. This is not allowed under Canadian GAAP.

The Fund is currently analyzing its operations in order to determine the cash-generating units to be used for the purpose of impairment testing and impairment models are being assessed to ensure compliance with IFRS.

Unitholders' capital

The Fund believes that under IFRS it may be necessary to reclassify its Fund units from equity to liabilities with the related distributions being associated as either equity distributions or expenses.

Income taxes

IAS 12 Income Taxes is similar to Canadian GAAP in that the Fund has to recognize deferred (future) taxes on temporary differences between the carrying value of assets and liabilities and their tax basis. The adoption of IFRS will have a significant impact on the Fund's tax accounting in the period of adoption and in subsequent periods for new temporary differences arising on the conversion to IFRS as a result of changes in carrying values of assets, differences in depreciation

expense, residual values, capitalization of borrowing and direct costs, and impairment charges and reversals.

Additional IFRS that are expected to require changes, but with potentially lesser impact on existing reporting, are:

- Inventories – Depending on their nature, spare parts are treated differently under IFRS and Canadian GAAP;
- Foreign Currency – IFRS is more specific regarding the process used to assign a functional currency to each entity within a corporate group and does not distinguish between different types of foreign operations as Canadian GAAP currently does; and
- Financial instruments – Under IFRS, the definition of “closely related” in terms of embedded derivatives differs from that under Canadian GAAP.

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact on the Fund’s consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

The impact on information technology and controls over financial reporting and disclosure is not expected to be significant. The Fund will complete the assessment of the impact to investor relations and external communication plans once the evaluation of the impact to the consolidated financial statements is complete.

Critical Accounting Estimates

Management is responsible for applying judgement in preparing accounting estimates. Certain estimates and related disclosures included within the financial statements are particularly sensitive because of their significance to the financial statements and because of 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 Fund to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and if different estimates the Fund 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 GAAP, the following critical accounting estimates have been identified by management:

Amortization of the hydrovac units

The accounting estimate that has the greatest effect on the Fund’s financial results is the amortization of the hydrovac units. Amortization of the hydrovac units is carried out on the basis of their estimated useful lives. The Fund currently amortizes the hydrovac units over 10 years based on current knowledge and past 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 will affect the amortization rate used to amortize the hydrovac units and thus affect amortization expense as reported in the Fund's statements of earnings and 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 Fund 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, customer relationships, trade name and non-compete agreements. 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. The impairment test includes the application of a fair value test, with an impairment loss recognized when the carrying amount of the intangible asset exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of the intangible asset.

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, not amortized and 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.

Collectibility of accounts receivable

The Fund estimates the collectibility of its accounts receivable. The Fund continually reviews the balances and makes an allowance when a receivable is deemed uncollectible. The actual collectibility of accounts receivable could differ materially from the estimate

Unit-based compensation

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

Financial Instruments and Risk Management

Fair values

The Fund's financial instruments recognized on the consolidated balance sheet consist of cash and short-term deposits, accounts receivable, accounts payable, income taxes payable, distributions 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 each of the long-term facilities has 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 Fund's accounts receivable is with customers in the petroleum and utility industries and is subject to normal industry credit risks. The Fund manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Fund 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 Fund will not have sufficient funds to settle an obligation on the due date, 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 Fund's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Fund to raise capital by issuing equity or obtaining additional debt financing. The Fund also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses. At December 31, 2009, the Fund had available \$11.3 million of authorized borrowing capacity on the extendable revolving facility. The credit facility has no required principal repayment. The credit facility expires June 26, 2010 renewable at the Fund's option for an additional 364-day period. If not renewed, interest is payable on the facility for 364 days after which the entire amount is to be repaid. The Fund believes it has sufficient funding through operations and the use of this facility to meet foreseeable financial obligations.

Market risk

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

Interest rate risk

The Fund is exposed to interest rate risk in relation to interest expense on its long-term debt. Interest is calculated at prime plus 0.25 percent to prime plus 0.75 percent for certain of its borrowing facilities. The prime interest rate is subject to change. A sensitivity analysis would indicate that net earnings for the year ended December 31, 2009 would have been affected by approximately \$262,000 if the average interest rate changed by 1 percent. The Fund does not currently use interest rate hedges or fixed interest rate contracts to manage the Fund's exposure to interest rate fluctuations.

Foreign exchange risk

The Fund 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. The Fund does not currently 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, 2009 and identified the material weakness as outlined below.

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 Canadian GAAP. 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, 2009 and identified the material weakness as outlined below.

Material weakness

Badger has identified that it does not have sufficient accounting personnel with the appropriate tax expertise to allow for an effective review over 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 disclosures 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, 2009 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 50 percent of the Fund's revenues. The petroleum service industry relies heavily on the volume of capital expenditures made by oil and natural gas explorers and producers and is also affected by certain adverse weather conditions. 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. The Badger operating region with the greatest exposure to oil and natural gas service activity is the Western United States. To minimize the impact of the oil and natural gas industry cycles, the Fund also focuses on generating revenue from the utility and general contracting market segments.

Competition

The Fund 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 this region, Badger continually enhances its safety and operational procedures to ensure that they meet or exceed customer expectations. Badger also has the in-house capabilities 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 Fund 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

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

Amortization of daylighting units

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

Self-insurance

Due to the magnitude of insurance premiums, the Fund decided to self-insure against any physical damage it could incur on the hydrovac units. This decision will be re-evaluated periodically as circumstances change.

Dependence on key personnel

The success of Badger is dependent on the services of a number of members of its senior management. 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 Badger 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 Fund 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. The current economic downturn plus uncertainty will have a negative impact on Badger's business. The impact at this time is unknown. Badger will look for opportunities to replace revenue lost due to the downturn. The success of the Fund's efforts is unknown.

Compliance with government regulations

While Badger believes it is currently 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.

BADGER INCOME FUND
Unaudited Consolidated Balance Sheets

	December 31, 2009 \$	December 31, 2008 \$
ASSETS		
Current		
Cash	7,516,605	2,656,144
Accounts receivable	30,205,878	35,830,748
Inventories	1,792,708	2,197,611
Prepaid expenses	776,997	778,661
	<u>40,292,188</u>	<u>41,463,164</u>
Property, plant and equipment	91,155,437	97,653,365
Intangible assets	4,795,512	4,791,512
Goodwill	1,621,000	1,621,000
	<u>137,864,137</u>	<u>145,529,041</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	11,364,134	18,043,971
Income taxes payable	907,377	58,135
Distributions payable	1,134,893	1,133,028
Current portion of long-term debt	323,768	433,768
	<u>13,730,172</u>	<u>19,668,902</u>
Long-term debt	31,960,496	39,147,594
Future income taxes	19,280,129	21,262,936
	<u>64,970,797</u>	<u>80,079,432</u>
Unitholders' equity		
Unitholders' capital	44,387,955	44,183,155
Contributed surplus	3,813,850	2,613,850
Retained earnings	24,691,535	18,652,604
	<u>72,893,340</u>	<u>65,449,609</u>
	<u>137,864,137</u>	<u>145,529,041</u>

BADGER INCOME FUND**Unaudited Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings**

	December 31, 2009 \$	December 31, 2008 \$
Revenues	134,970,474	148,345,556
Direct costs	88,279,551	96,179,154
Gross margin	46,690,923	52,166,402
Expenses		
Amortization	13,836,620	12,506,492
Gain on sale of property, plant and equipment	(1,474,757)	(77,203)
Interest - long-term	1,481,160	1,708,864
Selling, general and administrative	11,487,400	11,232,411
Foreign exchange loss (gain)	(265,744)	628,048
	25,064,679	25,998,612
Earnings before income taxes	21,626,244	26,167,790
Income taxes		
Current	1,921,023	1,386,951
Future	52,093	5,798,949
	1,973,116	7,185,900
Net earnings and comprehensive income for the year	19,653,128	18,981,890
Retained earnings, beginning of year	18,652,604	13,257,307
Cash distributions	(13,614,197)	(13,586,593)
Retained earnings, end of year	24,691,535	18,652,604
Net earnings per unit		
Basic	1.82	1.76
Diluted	1.82	1.75

BADGER INCOME FUND
Unaudited Consolidated Statements of Cash Flows

	December 31, 2009	December 31, 2008
	\$	\$
Operating activities		
Net earnings and comprehensive income for the year	19,653,128	18,981,890
Add (deduct) items not involving cash:		
Amortization	13,836,620	12,506,492
Future income taxes	52,093	5,798,949
Unit-based compensation	1,250,000	1,142,750
Foreign exchange loss (gain)	(265,744)	628,048
Unrealized foreign exchange gain on future income taxes	(2,039,882)	-
Gain on sale of property, plant and equipment	(1,474,757)	(77,203)
	<u>31,011,458</u>	<u>38,980,926</u>
Net change in non-cash working capital relating to operating activities	<u>2,764,367</u>	<u>(3,748,988)</u>
	<u>33,775,825</u>	<u>35,231,938</u>
Financing activities		
Proceeds received on the exercise of unit options	-	246,150
Proceeds from long-term debt	-	13,653,621
Repayment of long-term debt	(7,297,098)	(326,269)
Distributions to unitholders	(13,612,332)	(13,583,540)
	<u>(20,909,430)</u>	<u>(10,038)</u>
Investing activities		
Purchase of property, plant and equipment	(12,363,674)	(34,897,580)
Purchase of service rights	(200,000)	-
Proceeds on disposal of property, plant and equipment	4,557,740	854,746
	<u>(8,005,934)</u>	<u>(34,042,834)</u>
Increase in cash during the year	4,860,461	1,179,066
Cash and short-term deposits, beginning of year	2,656,144	1,477,078
Cash and short-term deposits, end of year	<u>7,516,605</u>	<u>2,656,144</u>
Supplemental information		
Interest paid	<u>1,210,260</u>	<u>1,708,864</u>
Income taxes paid	<u>1,071,781</u>	<u>786,325</u>
Property, plant and equipment financed by accounts payable and accrued liabilities	<u>2,033,000</u>	<u>4,171,000</u>

GEOGRAPHIC SEGMENTED INFORMATION

The Fund operates in two geographic/reportable segments providing daylighting services to each of these segments. The following is selected information for the year and three months ended December 31, 2009 and 2008 based on these geographic segments.

	Three months ended Dec. 31, 2009			Three months ended Dec. 31, 2008		
	Canada (\$)	USA (\$)	Total (\$)	Canada (\$)	USA (\$)	Total (\$)
Revenues	18,846,505	14,276,699	33,123,204	24,738,706	15,732,353	40,471,059
Direct costs	12,667,286	9,616,300	22,283,586	16,718,919	10,118,911	26,837,830
Selling, general and administrative	2,232,262	791,835	3,024,097	1,875,575	1,509,448	3,385,023
EBITDA (*)	3,941,299	3,861,543	7,802,842	6,217,819	3,044,448	9,262,267
Amortization	1,946,332	1,899,441	3,845,773	1,967,313	1,325,933	3,293,246
Earnings before income taxes	3,056,605	1,674,812	4,731,417	3,767,981	1,711,022	5,479,003
Capital expenditures	(1,324,157)	3,354,832	2,030,675	7,457,034	4,449,073	11,906,107

	Twelve months ended Dec. 31, 2009			Twelve months ended Dec. 31, 2008		
	Canada (\$)	USA (\$)	Total (\$)	Canada (\$)	USA (\$)	Total (\$)
Revenues	77,020,605	57,949,869	134,970,474	94,972,824	53,372,732	148,345,556
Direct costs	50,313,673	37,965,878	88,279,551	61,169,558	35,009,596	96,179,154
Selling, general and administrative	7,880,599	3,606,801	11,487,400	7,634,504	3,597,907	11,232,411
EBITDA (*)	18,716,206	16,753,061	35,469,267	26,219,932	14,086,011	40,305,943
Amortization	7,808,455	6,028,165	13,836,620	7,713,632	4,792,860	12,506,492
Earnings before income taxes	11,298,131	10,328,113	21,626,244	16,997,960	9,169,830	26,167,790
Property, plant and equipment	49,774,184	41,381,253	91,155,437	60,682,964	36,970,401	97,653,365
Intangible assets	4,795,512	-	4,795,512	4,791,512	-	4,791,512
Goodwill	1,621,000	-	1,621,000	1,621,000	-	1,621,000
Total assets	75,345,036	62,519,101	137,864,137	92,423,910	53,105,131	145,529,041
Capital expenditures	3,227,301	4,965,373	8,192,674	22,894,856	16,173,724	39,068,580

(*) Earnings before interest, taxes, depreciation and amortization (EBITDA) is a measure of the Fund's operating profitability and is therefore useful to management and investors. EBITDA provides an indication of the results generated by the Fund's principal business activities prior to how these activities are financed, assets are amortized or how the results are taxes in various jurisdictions. EBITDA is calculated from the Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings as gross margin, less selling, general and administrative costs and foreign exchange loss (gain).

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

Badger Income Fund's business model involves the provision of excavating services through two distinct entities: the Operating Partners (franchisees in the United States and agents in Canada), and Badger Corporate. Badger Corporate works with its Operating Partners to provide Hydrovac service 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. All work is invoiced by Badger and then shared with the Operating Partner based upon a revenue sharing formula. In certain locations Badger has established corporate run operations to market and deliver the service in the local area.

The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.

For more information regarding this Press Release, please contact:

Tor Wilson
President and CEO
2820, 715 – 5th Avenue SW
Calgary, Alberta T2P 2X6

Greg Kelly, CA
Vice President Finance and CFO
Phone (403) 264-8500
Fax (403) 228-9773