



Continued Growth

2008

QUARTERLY
REPORT

For the Three Months Ended March 31, 2008

Q1

BADGER INCOME FUND ANNOUNCES A 26 PERCENT INCREASE IN REVENUES AND RESULTS FOR THE FIRST QUARTER ENDED MARCH 31, 2008

Badger Income Fund (the "Fund" or "Badger") is pleased to announce its financial and operating results for the quarter ended March 31, 2008. Overall revenues increased by approximately 26 percent to \$34.8 million for the first quarter of 2008 from \$27.6 million for the same period in 2007, due to a 29 percent increase in Canadian revenues and a 20 percent increase in United States revenues. As a result of the increase in revenues, EBITDA and funds generated from operations also increased over the same period of 2007. Badger's EBITDA increased to \$10.0 million in the first quarter of 2008 from \$7.8 million in the same quarter of 2007, while funds generated from operations increased to \$9.7 million in the first quarter of 2008 from \$7.6 million in the same quarter of 2007.

Financial Highlights

<i>(\$ thousands, except per unit and total units outstanding information)</i>	Three months ended March 31, 2008	Three months ended March 31, 2007
Revenues	34,774	27,574
EBITDA ⁽¹⁾	10,045	7,849
Earnings before income taxes	6,777	5,217
Taxes		
Current	254	187
Future	1,240	801
Net earnings	5,283	4,230
Net earnings per unit – diluted (\$)	0.49	0.39
Funds generated from operations ⁽²⁾	9,687	7,585
Funds generated from operations per unit – diluted (\$)	0.89	0.70
Maintenance capital expenditures ⁽³⁾	–	667
Long-term debt repayments	55	27
Cash available for growth and distribution ⁽⁴⁾	9,967	7,015
Cash distributions declared	3,391	3,389
Growth capital expenditures ⁽³⁾	5,451	2,153
Total units outstanding	10,773,419	10,758,618

The following financial measures do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures as presented by other funds or entities:

- (1) 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 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).
- (2) 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 calculated from the Consolidated Statements of Cash Flows and is defined as cash provided by operating activities before changes in non-cash working capital.
- (3) Maintenance capital expenditures is defined as the amount incurred during the period to keep the Fund's daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the existing business. It also includes any costs incurred to enhance 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. During the three-month period ended March 31, 2008, Badger added 18 units to the fleet and did not remove any from service. As a result all of the units added during the three months ended March 31, 2008 represent growth capital expenditures, while none of the units represent maintenance capital expenditures. The economic life of a Badger hydrovac is approximately 10 years. The average age of the fleet is approximately four-and-a-half years. Growth capital expenditures exclude acquisitions made during the period.
- (4) 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.

Operational Summary

1. We were pleased with the 28 percent revenue growth in the Western Canadian operations during the first quarter of 2008 over the first quarter of 2007. We benefited from steady utilization of the hydrovacs, many of which were on large projects during the quarter, and a general good activity level in the field.
2. Eastern Canadian operational revenue was negatively affected by poor regional weather conditions during the first quarter, which slowed or postponed construction activity in the region. The addition of Benko Sewer Service on April 1, 2007 helped Badger's Eastern Canadian operations grow in the first quarter of 2008.
3. United States operations grew revenues by 20 percent in the first quarter of 2008 over the first quarter of 2007. This increase was the result of continued good markets in the Western United States region and revenue generated from the investment made in new areas in the Eastern United States in 2007. The Eastern United States region benefited from good utilization due to a couple of construction projects that required several additional trucks to keep up with demand.
4. Revenue per truck per month was \$30,400 for the three months ended March 31, 2008, compared to \$30,000 in the first three months of 2007. The Badger business model works well at an overall fleet average of \$25,000 or more per truck per month.
5. Badger had 352 daylighting units at the end of the first quarter of 2008, reflecting the addition of 18 daylighting units to the fleet to date in 2008 and the retirement of no units. The Fund had 334 units at December 31, 2007.

Interim Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the attached unaudited interim consolidated financial statements of Badger Income Fund (the "Fund" or "Badger"). Readers should also refer to the audited consolidated financial statements and Management's Discussion and Analysis included in Badger Income Fund's 2007 Annual Report. Additional information is also available on the Fund's website (www.badgerinc.com) and all previous public filings, including the most recently filed Annual Information Form, are available through SEDAR (www.sedar.com).

This Management's Discussion and Analysis has been prepared taking into consideration information available to May 13, 2008.

DISCLAIMER

Certain statements contained in the quarterly report, including statements contained in the MD&A, constitute forward-looking statements. These statements relate to future events or Badger's future performance. All statements other than statements of historical fact may be forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or events to differ materially from those anticipated in such forward-looking statements. Other factors include, but are not limited to: the future tax treatment of income trusts; supply-demand fluctuations for oil and natural gas and related products and services; political and economic conditions; the demand for services provided by Badger; industry competition; and Badger's ability to attract and retain key personnel. The Fund believes that the expectations reflected in these forward-looking statements are reasonable; however, no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this quarterly report should not be unduly relied upon. In addition, these forward-looking statements relate to the date on which they are made. Badger disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

RESULTS OF OPERATIONS

Revenues

Revenues of \$34.8 million for the three months ended March 31, 2008 were 26 percent higher than the \$27.6 million in revenues generated during the comparable period of 2007. The increase is attributable to the following:

- (1) In the United States revenues increased to \$11.3 million from \$9.4 million period-over-period. This 20 percent increase is due to Badger's continued focus in certain geographical areas and market segments, which has resulted in an increased customer base and demand for hydrovac services. Other factors included increased activity related to oilfield service in the Western United States and good project work in the Eastern United States.
- (2) In Western Canada revenues increased by \$3.8 million or 28 percent in the first quarter of 2008 over the first quarter of 2007. The increase was due to a general increase in demand for hydrovac services in various areas and good project work.
- (3) Eastern Canada revenue, excluding the added revenue from the Benko Sewer Service acquisition made in the second quarter for 2007, decreased by 7 percent period-over-period due to poor winter weather conditions.

Badger's average revenue per truck per month during the three months ended March 31, 2008 was \$30,400 versus \$30,000 per month for the three months ended March 31, 2007.

Included in revenues is approximately \$528,000 of truck placement and franchise fees for the three months ended March 31, 2008, versus \$502,000 for the three months ended March 31, 2007.

Direct Costs

Direct costs for the quarter ended March 31, 2008 were \$22.1 million compared to \$17.6 million for the quarter ended March 31, 2007. This is consistent with the increase in revenues. During the quarter Badger reclassified certain United States expenses, previously included in selling, general and administrative expenses, to direct costs to better reflect the nature of those expenses. The comparative figures in 2007 have also been reclassified to conform to the current period's presentation.

Gross Margin

Gross margin was 36.4 percent for the quarter ended March 31, 2008, a modest increase from the 36.3 percent for the quarter ended March 31, 2007.

Amortization

Amortization of property, plant and equipment was \$2.9 million for the three months ended March 31, 2008, \$0.5 million higher than the \$2.4 million for the three months ended March 31, 2007. This increase reflects the larger number of hydrovac units in the fleet. Included in this figure is approximately \$49,000 related to amortization of intangible assets with a limited life.

Interest Expense

Interest expense was \$383,000 for the quarter ended March 31, 2008 versus \$227,000 for the quarter ended March 31, 2007. The higher interest expense is attributable to maintaining a higher balance of debt during the first quarter of 2008 than in the first quarter of 2007. The increased debt was used to fund growth capital expenditures and business acquisitions made in 2007.

Selling, General and Administrative

Selling, general and administrative expenses were \$2.6 million for the quarter ended March 31, 2008 compared to \$2.1 million for the quarter ended March 31, 2007. As a percentage of revenues, selling, general and administrative expenses were 7.4 percent for the first quarter of 2008, which is consistent with the 7.5 percent recorded for the first quarter of 2007. The increase is due to incurring non-cash compensation expense of \$231,000 for the first quarter ended 2008 versus \$62,000 in the first quarter of 2007, added costs due to the acquisition of service rights from certain of the Canadian Operating Partners in the second and fourth quarter of 2007, costs associated with Benko Sewer Service, which was acquired in the second quarter of 2007, and higher general office costs to support the growth in business.

During the quarter Badger reclassified certain United States expenses, previously included in selling, general and administrative expenses, to direct costs to better reflect the nature of those expenses. The comparative figures in 2007 have also been reclassified to conform to the current period's presentation.

Income Taxes

The effective tax rate for the quarter ended March 31, 2008 was 22 percent versus 19 percent for the quarter ended March 31, 2007. For the remainder of 2008 the Fund anticipates an effective tax rate of 22 percent.

The minimal effective tax rate overall is due to the trust structure, which results in tax-deductible distributions being made to unitholders.

LIQUIDITY AND CAPITAL RESOURCES

Funds generated from operations for the quarter ended March 31, 2008 increased to \$9.7 million from \$7.6 million for the comparable period in 2007 due to stronger Canadian and United States activity levels.

The Fund had working capital of \$22.7 million at March 31, 2008 compared to \$19.7 million at December 31, 2007. The increase was predominantly due to increased revenues resulting in an increase in the Fund's accounts receivable balance. Good levels of cash flow from operations allowed Badger to build new daylighting units while maintaining a healthy working capital position.

In May 2008, the Fund's extendable, revolving credit facility was renewed and amended to increase the maximum principal amount to \$40 million from \$30 million. The facility is used to fund working capital requirements and finance capital expenditures, of which \$25.4 million was drawn at March 31, 2008. The Fund will utilize an appropriate mix of debt and equity to finance its maintenance capital expenditures and growth initiatives.

The Fund spent \$5.5 million on property, plant and equipment for the three months ended March 31, 2008, compared to \$2.8 million for the three months ended March 31, 2007. The Fund added 18 units to the fleet in the first quarter of 2008, compared to 15 units in the first quarter of 2007. The 2007 expenditures figure does not include \$2.7 million in capital expenditures that Badger incurred in 2006 which related to construction of the units in the first quarter of 2007.

In addition to the above, as at March 31, 2008 the Fund had committed to certain capital expenditures totalling approximately \$8.1 million. These capital expenditures will be financed with existing credit facilities and funds generated from operations, as well as alternative sources of financing as required. There are no set terms for remitting payment for these financial obligations.

Management believes that the Fund's healthy balance sheet and unutilized borrowing capacity, 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.

Number of Daylighting Units

During the three-month period ended March 31, 2008 Badger added six units to the Canadian fleet and transferred two to the United States, bringing the total to 220 units operating in Canada as at March 31, 2008. In the United States, Badger added 12 units and received two, which were transferred from Canada, bringing the total number of units in the United States to 132 at March 31, 2008.

DISTRIBUTIONS

The following table outlines the cash available to fund growth and pay distributions to unitholders for the three months ended March 31, 2008:

Cash provided by operating activities	\$ 6,816,378
Add (deduct): net change in non-cash working capital	2,871,102
Funds generated from operations	9,687,480
Add: proceeds on disposal of property, plant and equipment	334,470
Deduct: required repayments of long-term debt	(54,693)
Deduct: maintenance capital expenditures	-
Cash available for growth capital expenditures and distributions	\$ 9,967,257
Growth capital expenditures	\$ 5,451,469
Cash distributions declared	\$ 3,391,159

In determining cash available for distributions the Fund excludes non-cash working capital changes for the period 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 quarters. 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 (shortfall) of cash provided by operating activities and net earnings over cash distributions declared during the quarter ended March 31, 2008 and the year ended December 31, 2007:

	March 31, 2008 \$	December 31, 2007 \$
Cash provided by operating activities	6,816,378	24,432,856
Net earnings	5,282,897	16,722,845
Cash distributions declared	3,391,159	13,558,421
Excess (shortfall) of cash provided by operating activities over cash distributions declared	3,425,219	10,874,435
Excess (shortfall) of net earnings over cash distributions declared	1,891,738	3,164,424

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 the number of units outstanding. It may also be impacted by the future tax treatment of income trusts.

The Fund maintains a strong balance sheet and has sufficient debt facilities to manage its short-term funding needs as well as planned equipment additions. Part of the debt management strategy involves 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 was used to finance maintenance and growth capital expenditures and to pay distributions to unitholders. Cash which was not distributed to unitholders was used to finance growth capital expenditures.

If maintenance capital expenditures increase in future periods, the Fund's cash available for growth capital expenditures and distribution will be negatively affected. Due to Badger's growth rate in recent years, the majority of the Fund's 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 expects that continued increases in 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 quarterly report the Fund is in full compliance with all debt covenants and is able to fully utilize all existing credit facilities. Badger does not have a stability rating.

UNITHOLDERS' CAPITAL

Unitholders' capital increased by \$233,850 during the three months ended March 31, 2008. This was the result of the Fund issuing 11,751 units from its long-term incentive plan as payment for 2007 performance bonuses payable to management.

The total units outstanding at March 31, 2008 were 10,773,419. There was no change to the balance as of May 13, 2008.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Quarter ended							
	2008		2007			2006		
	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30
Revenues (\$)	34,774,334	33,356,010	31,741,950	25,015,707	27,574,051	25,621,658	25,324,030	21,696,318
Net earnings (\$)	5,282,897	5,816,949	5,136,223	1,539,755	4,229,918	4,659,784	3,974,958	2,841,459
Net earnings per unit – basic (\$)	0.49	0.54	0.48	0.14	0.39	0.43	0.37	0.26
Net earnings per unit – diluted (\$)	0.49	0.54	0.48	0.14	0.39	0.43	0.37	0.26

CHANGES IN ACCOUNTING POLICIES

As of January 1, 2008, the Fund prospectively adopted the following sections from the Handbook of the Canadian Institute of Chartered Accountants (CICA):

- Section 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Fund's objectives, policies and processes for managing capital;
- Sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation" will replace Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments; and
- Section 3031 "Inventories", which prescribes the recognition, measurement, disclosure and presentation issues related to inventories.

There is no material impact to the Fund's consolidated financial statements as a result of implementing the new standards.

For a detailed discussion about the accounting policies adopted, refer to Note 2 of the interim consolidated financial statements for the three-month period ended March 31, 2008.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting (ICFR) is designed to provide reasonable assurance regarding the reliability of the Fund's financial reporting and its compliance with Canadian GAAP in its financial statements. The President and CEO and the VP Finance and CFO have evaluated whether there were any changes to the Fund's ICFR during the three months ended March 31, 2008 that have materially affected or are reasonably likely to materially affect the ICFR. No such changes were identified through their evaluation.

BUSINESS RISKS

The MD&A for the year ended December 31, 2007, which is included in the Fund's 2007 Annual Report, includes an overview of business risks associated with the Fund. Those business risks remain in effect. Reference should also be made to Badger's 2007 Annual Information Form.

OUTLOOK

Badger is cautiously optimistic that reasonable market conditions will continue for its services for the foreseeable future, allowing the Fund to continue to grow during the remainder of 2008. The strengthening of Badger's operational management team plus added United States service locations should help fuel growth in this important market. While the Western Canada region will have decreased activity during the quarter with the normal spring break-up, Badger fully expects its Eastern Canada region to have increased activity after a tough winter. The production enhancements made at Badger's Red Deer manufacturing facility during the first quarter will allow Badger to increase production of Badger units required by growing markets. Badger plans to continue to build units at approximately the same rate as in the first quarter, which averaged six trucks per month.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Fund have been prepared by Badger Income Fund's management.

The Fund's independent auditor has not performed a review of the accompanying unaudited interim consolidated financial statements in accordance with standards established by the CICA for a review of interim financial statements by an entity's auditor.

Unaudited Consolidated Balance Sheets

	March 31, 2008 \$	December 31, 2007 \$
ASSETS		
Current		
Cash	1,430,137	1,477,078
Accounts receivable	31,250,655	28,318,106
Inventories	2,158,202	1,690,133
Prepaid expenses	1,360,451	1,031,513
	36,199,445	32,516,830
Property, plant and equipment	73,953,333	71,672,820
Intangible assets	4,938,512	4,987,512
Goodwill	1,621,000	1,621,000
	116,712,290	110,798,162
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	11,984,153	11,269,139
Income taxes payable	170,527	212,540
Distributions payable	1,131,209	1,129,975
Current portion of long-term debt	218,768	218,768
	13,504,657	12,830,422
Long-term debt	27,678,847	26,035,242
Future income taxes	14,740,936	13,500,936
	55,924,440	52,366,600
Unitholders' equity		
Unitholders' capital (note 3)	43,772,105	43,538,255
Contributed surplus (note 4)	1,866,700	1,636,000
Retained earnings	15,149,045	13,257,307
	60,787,850	58,431,562
	116,712,290	110,798,162

See accompanying notes.

Unaudited Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings

	Three months ended March 31, 2008 \$	Three months ended March 31, 2007 \$
Revenues	34,774,334	27,574,051
Direct costs	22,102,022	17,570,177
Gross margin	12,672,312	10,003,874
Expenses		
Amortization	2,891,679	2,391,831
Loss (gain) on sale of property, plant and equipment	(6,193)	13,119
Interest long-term	382,677	226,950
Selling, general and administrative	2,578,468	2,068,049
Foreign exchange loss (gain)	48,397	86,707
	5,895,028	4,786,656
Earnings before income taxes	6,777,284	5,217,218
Income taxes		
Current	254,387	186,650
Future	1,240,000	800,650
	1,494,387	987,300
Net earnings and comprehensive income for the period	5,282,897	4,229,918
Retained earnings, beginning of period	13,257,307	10,092,883
Cash distributions	(3,391,159)	(3,388,964)
Retained earnings, end of period	15,149,045	10,933,837
Net earnings per unit (note 5)		
Basic	0.49	0.39
Diluted	0.49	0.39

See accompanying notes.

Unaudited Consolidated Statements of Cash Flows

	Three months ended March 31, 2008 \$	Three months ended March 31, 2007 \$
OPERATING ACTIVITIES		
Net earnings and comprehensive income for the period	5,282,897	4,229,918
Add (deduct) items not involving cash:		
Amortization	2,891,679	2,391,831
Future income taxes	1,240,000	800,650
Unit-based compensation	230,700	62,400
Foreign exchange loss (gain)	48,397	86,707
Loss (gain) on sale of property, plant and equipment	(6,193)	13,119
	9,687,480	7,584,625
Net change in non-cash working capital relating to operating activities	(2,871,102)	(1,956,942)
	6,816,378	5,627,683
FINANCING ACTIVITIES		
Proceeds from long-term debt	1,698,298	1,861,171
Repayment of long-term debt	(54,693)	(27,192)
Distributions to unitholders	(3,389,925)	(3,388,964)
	(1,746,320)	(1,554,985)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(5,451,469)	(2,819,984)
Proceeds on disposal of property, plant and equipment	334,470	124,745
Net change in non-cash working capital relating to investing activities	-	(938,434)
	(5,116,999)	(3,633,673)
Increase (decrease) in cash during the period	(46,941)	439,025
Cash, beginning of period	1,477,078	1,319,912
Cash, end of period	1,430,137	1,758,937

See accompanying notes.

Notes to the Consolidated Financial Statements

(unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements include the accounts of Badger Income Fund (“Badger” or the “Fund”) and its wholly-owned subsidiaries and have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). These unaudited interim consolidated financial statements for the three months ended March 31, 2008 have been prepared following the same accounting policies and methods of application as the audited consolidated financial statements of the Fund for the fiscal year ended December 31, 2007, except as noted below in Note 2. The disclosures provided below are incremental to those included in the Fund’s annual audited consolidated financial statements. The unaudited interim consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements and the related notes in the Fund’s Annual Report for the year ended December 31, 2007.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end and the results of operations for the interim periods shown in these statements are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments (of a normal recurring nature) necessary to present fairly the consolidated results of the Fund’s operations and cash flows for the three months ended March 31, 2008 and 2007.

Certain comparative figures have been reclassified to conform to the current period’s presentation.

2. CHANGES IN ACCOUNTING POLICIES

As of January 1, 2008 the Fund adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535 “Capital Disclosures”, Section 3862 “Financial Instruments – Disclosures”, Section 3863 “Financial Instruments – Presentation” and Section 3031 “Inventories”. The provisions have been adopted and included in these consolidated financial statements in Notes 6 and 7. As required by the new standards, prior periods have not been restated.

The adoption of these standards has had no material impact on the Fund’s net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

3. UNITHOLDERS’ CAPITAL

	Units	Amount (\$)
December 31, 2007	10,761,668	43,538,255
Units issued under the Incentive Plan	11,751	233,850
March 31, 2008	10,773,419	43,772,105

The Fund declared distributions of \$0.105 per unit for each of the months of January, February and March for a total of \$3,391,159.

4. UNIT-BASED COMPENSATION

A summary of the unit option transactions for the three months ended March 31, 2008 is as follows:

	Three months ended March 31, 2008	
	Units	Weighted average exercise price \$
Outstanding at beginning of period	505,000	16.86
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at end of period	505,000	16.86

Price	Options Outstanding			Options Exercisable	
	Outstanding at March 31, 2008	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at March 31, 2008	Weighted average exercise price
\$ 17.50	160,000	3.1	\$ 17.50	53,333	\$17.50
\$ 17.45	50,000	3.4	\$ 17.45	16,666	\$17.45
\$ 16.41	295,000	4.1	\$ 16.41	-	-

The Fund recorded compensation expense, included as part of selling, general and administrative expenses, of \$230,700 with an offsetting increase to contributed surplus for the three months ended March 31, 2008.

5. NET EARNINGS PER UNIT

Basic per unit calculations for the three months ended March 31, 2008 and 2007 were based on the weighted average number of units outstanding of 10,762,443 and 10,758,618, respectively. Diluted per unit calculations for the three months ended March 31, 2008 and 2007 were based on the weighted average number of units outstanding of 10,831,526 and 10,758,618, respectively. The difference between the basic and diluted units was attributable to the dilutive effect of the unit options outstanding.

6. CAPITAL MANAGEMENT

The Fund's strategy is to carry a capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Fund seeks to maintain a balance between the level of net debt and unitholders' equity to ensure access to capital markets to fund growth and working capital. On a historical basis, the Fund has maintained a conservative ratio of net debt to net debt plus unitholders' equity. The Fund may occasionally need to increase these levels to facilitate acquisition or expansion activities. As at March 31, 2008 and December 31, 2007 this ratio was as follows:

	March 31, 2008	December 31, 2007
Long-term debt	\$ 27,897,615	\$ 26,254,010
Cash	(1,430,137)	(1,477,078)
Net debt	26,467,478	24,776,932
Unitholders' equity	60,787,850	58,431,562
Total capitalization	\$ 87,255,328	\$ 83,208,494
Net debt to total capitalization (%)	30%	30%

The Fund sets the amounts of its various forms of capital in proportion to risk. The Fund manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Fund may adjust the amount of distributions to unitholders, return capital to unitholders, issue new units, or sell assets to reduce net debt.

The Fund is bound by certain financial and non-financial covenants as defined by its bank. If the Fund is in violation of any of these covenants its ability to pay distributions may be inhibited. The Fund monitors these covenants to ensure it remains in compliance. Throughout 2007 and year-to-date 2008, and as at March 31, 2008, the Fund was in compliance with all of these covenants.

As a result of the Canadian trust taxation legislation passed in June 2007 and effective January 1, 2011, the Fund is subject to certain capital growth restrictions referred to as "normal growth" equity rules. These rules limit the amount of unitholders' capital that can be issued by the Fund in each of the next three years, based on the Fund's market capitalization on October 31, 2006. Badger is constrained by a non-cumulative capacity of \$50 million per year until 2010 plus approximately \$8 million capacity from debt outstanding at October 31, 2006.

If the maximum allowed equity growth is exceeded, the Fund may be subject to the trust taxation prior to 2011.

In addition to growth capital restrictions, the Fund also monitors its foreign ownership levels to the extent possible given the practical limitations regarding beneficial ownership information. The Fund Declaration of Trust, under which the Fund was created, provides that no more than 49 percent of the units of the Fund can be held by non-Canadian residents. The potential impact of breaching this threshold may be the loss of mutual fund trust status, which may significantly adversely impact the valuation of the units. At March 31, 2008, the Fund's best estimate of the foreign ownership level was 23 percent.

There were no changes in the Fund's approach to capital management during the quarter.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Values

The Fund's financial instruments recognized on the interim consolidated balance sheet consist of cash, 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

A substantial portion of the Fund's accounts receivable balance 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.

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 to prime plus for certain of its borrowing facilities. The prime interest rate is subject to change. 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.

Liquidity Risk

Liquidity risk is the risk that, as a result of operational liquidity requirements, the Fund will not have sufficient funds to settle a transaction on the due date, will be forced to sell financial assets at a value which is 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 March 31, 2008, the Fund had available \$4.6 million of authorized borrowing capacity on the extendable revolving facility, which was increased by an additional \$10 million upon renewal of the facility in May 2008. The Fund believes it has sufficient funding through operations and the use of this facility to meet foreseeable financial obligations.

8. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current period's presentation.

9. SUBSEQUENT EVENTS

- a) In May 2008, the Fund's extendable, revolving facility was renewed and amended to increase the maximum principal amount to \$40 million from \$30 million.
- b) In May 2008 the Fund purchased land and buildings in Canada for cash consideration of \$4,300,000.

10. SEGMENTED INFORMATION

	Three months ended March 31, 2008			Three months ended March 31, 2007		
	Canada (\$)	U.S. (\$)	Total (\$)	Canada (\$)	U.S. (\$)	Total (\$)
Revenues	23,469,612	11,304,722	34,774,334	18,147,663	9,426,388	27,574,051
Direct costs	14,617,042	7,484,980	22,102,022	11,303,052	6,267,125	17,570,177
Selling, general and administrative	1,914,270	664,198	2,578,468	1,403,457	664,592	2,068,049
Amortization	1,874,040	1,017,639	2,891,679	1,661,652	730,179	2,391,831
Earnings before income taxes	4,691,368	2,085,916	6,777,284	3,527,800	1,689,418	5,217,218
Property, plant and equipment	45,849,863	28,103,470	73,953,333	42,841,750	19,816,362	62,658,112
Intangible assets	4,938,512	–	4,938,512	1,551,336	–	1,551,336
Goodwill	1,621,000	–	1,621,000	–	–	–
Total assets	77,217,136	39,495,154	116,712,290	63,711,634	29,218,444	92,930,078
Capital expenditures	2,044,516	3,406,953	5,451,469	278,865	2,541,119	2,819,984

Corporate Information

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CriticalControl Solutions Corp.

David Calnan, LL.B

Partner
Shea Nerland Calnan LLP

Martin Margolis, CA

Chartered Accountant

Glen D. Roane

Corporate Director

J. Richard Couillard

Chief Executive Officer
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President & CEO

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